

**CITY OF KING COVE, ALASKA**

Basic Financial Statements,  
Supplementary Information, and  
Single Audit Reports

Year Ended June 30, 2011

# CITY OF KING COVE, ALASKA

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## Independent Auditor's Report

Honorable Mayor and City Council  
City of King Cove, Alaska

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of King Cove, Alaska, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of King Cove's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of King Cove, Alaska as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund, Permanent Fund, and Water and Sewer Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2011, on our consideration of City of King Cove's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Honorable Mayor and City Council  
City of King Cove, Alaska

City of King Cove, Alaska has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of King Cove's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, Schedule of State Financial Assistance, and the combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and the Schedule of State Financial Assistance is required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Mikunda, Cottrell & Co.*

Anchorage, Alaska  
December 28, 2011

## **BASIC FINANCIAL STATEMENTS**

## CITY OF KING COVE, ALASKA

## Statement of Net Assets

June 30, 2011

<u>Assets</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Cash and investments	\$ 622,730	-	622,730
Receivables:			
Accounts	65,192	257,201	322,393
Sales taxes	271,936	-	271,936
Grants	150,862	329,856	480,718
Allowance for doubtful accounts	-	(49,438)	(49,438)
Internal balances	1,409,528	(1,409,528)	-
Inventories	-	605,173	605,173
Investment in Southwest Governments, LLC	118,136	-	118,136
Restricted cash - bond reserves	-	108,404	108,404
Bond issuance cost	-	3,828	3,828
Capital assets, not being depreciated	414,390	48,372	462,762
Other capital assets, net of accumulated depreciation	<u>23,455,166</u>	<u>25,675,368</u>	<u>49,130,534</u>
Total assets	\$ <u>26,507,940</u>	<u>25,569,236</u>	<u>52,077,176</u>
<u>Liabilities</u>			
Accounts payable	83,518	288,818	372,336
Accrued payroll and related liabilities	57,712	21,416	79,128
Accrued interest payable	15,421	50,411	65,832
Unearned revenue	-	1,813	1,813
Noncurrent liabilities:			
Due within one year:			
Bonds and loans	37,080	178,726	215,806
Note payable	100,000	-	100,000
Due in more than one year:			
Accrued leave	104,615	24,316	128,931
Landfill closure costs payable	825,598	-	825,598
Bonds and loans	1,390,920	2,130,394	3,521,314
Unamortized bond premium	<u>-</u>	<u>22,698</u>	<u>22,698</u>
Total liabilities	<u>2,614,864</u>	<u>2,718,592</u>	<u>5,333,456</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	22,441,556	23,391,922	45,833,478
Unrestricted (deficit)	<u>1,451,520</u>	<u>(541,278)</u>	<u>910,242</u>
Total net assets	<u>23,893,076</u>	<u>22,850,644</u>	<u>46,743,720</u>
Total liabilities and net assets	\$ <u>26,507,940</u>	<u>25,569,236</u>	<u>52,077,176</u>

See accompanying notes to basic financial statements.



## CITY OF KING COVE, ALASKA

Statement of Activities  
Year Ended June 30, 2011

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Functions	Expenses	Fees, Fines & Charges for Services	Operating Grants & Contri- butions	Capital Grants & Contri- butions	Govern- mental Activities	Business- type Activities	Total
<b>Governmental activities:</b>							
General government	\$ 817,882	11,486	-	-	(806,396)	-	(806,396)
Public safety	592,907	509	-	-	(592,398)	-	(592,398)
Public works	810,068	-	-	2,265,600	1,455,532	-	1,455,532
Community services	849,480	163,672	294,769	-	(391,039)	-	(391,039)
Water and sewer	513,132	300,273	-	-	(212,859)	-	(212,859)
Solid waste	153,142	104,456	-	-	(48,686)	-	(48,686)
Total governmental activities	<u>3,736,611</u>	<u>580,396</u>	<u>294,769</u>	<u>2,265,600</u>	<u>(595,846)</u>	<u>-</u>	<u>(595,846)</u>
<b>Business-type activities:</b>							
Electric utility	1,413,276	1,313,272	-	-	-	(100,004)	(100,004)
Fuel sales	373,035	496,874	-	-	-	123,839	123,839
Harbor and port	897,112	425,296	-	2,586,919	-	2,115,103	2,115,103
Total business type activities	<u>2,683,423</u>	<u>2,235,442</u>	<u>-</u>	<u>2,586,919</u>	<u>-</u>	<u>2,138,938</u>	<u>2,138,938</u>
Total	\$ <u>6,420,034</u>	<u>2,815,838</u>	<u>294,769</u>	<u>4,852,519</u>	<u>(595,846)</u>	<u>2,138,938</u>	<u>1,543,092</u>
General revenues:							
Sales and business impact taxes				\$ 1,943,699	10,532		1,954,231
Grants and entitlements not restricted to a specific purpose				698,124	25,401		723,525
Investment income				21	-		21
Transfers				<u>186,995</u>	<u>(186,995)</u>		<u>-</u>
Total general revenues and transfers				<u>2,828,839</u>	<u>(151,062)</u>		<u>2,677,777</u>
Change in net assets				2,232,993	1,987,876		4,220,869
Net assets at beginning of year				36,138,802	6,384,049		42,522,851
Adjustment due to conversion of special revenue fund to an enterprise fund				<u>(14,478,719)</u>	<u>14,478,719</u>		<u>-</u>
Net assets at end of year				\$ <u>23,893,076</u>	<u>22,850,644</u>		<u>46,743,720</u>

See accompanying notes to basic financial statements.

## CITY OF KING COVE, ALASKA

## Governmental Funds

## Balance Sheet

June 30, 2011

<u>Assets</u>	<u>Major Funds</u>					<u>Total Govern- mental Funds</u>
	<u>General</u>	<u>Permanent Fund Special Revenue</u>	<u>Water and Sewer Special Revenue</u>	<u>General Capital Projects</u>	<u>Nonmajor Funds</u>	
Cash and investments	\$ -	622,730	-	-	-	622,730
Receivables:						
Accounts	12,143	-	38,410	-	14,639	65,192
Sales taxes	271,936	-	-	-	-	271,936
Grants	-	-	-	89,555	61,307	150,862
Due from other funds	1,323,592	69,316	-	171,901	221,650	1,786,459
Investment in Southwest Governments, LLC	<u>118,136</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>118,136</u>
Total assets	\$ <u>1,725,807</u>	<u>692,046</u>	<u>38,410</u>	<u>261,456</u>	<u>297,596</u>	<u>3,015,315</u>
Liabilities and Fund <u>Balances (Deficits)</u>						
Liabilities:						
Accounts payable	41,182	-	4,376	8,079	29,881	83,518
Accrued payroll and related liabilities	47,286	-	2,991	-	7,435	57,712
Notes payable	-	-	-	-	100,000	100,000
Due to other funds	<u>-</u>	<u>-</u>	<u>306,938</u>	<u>-</u>	<u>69,993</u>	<u>376,931</u>
Total liabilities	<u>88,468</u>	<u>-</u>	<u>314,305</u>	<u>8,079</u>	<u>207,309</u>	<u>618,161</u>
Fund balances (deficits):						
Nonspendable	118,136	-	-	-	-	118,136
Committed	-	692,046	-	-	-	692,046
Assigned	-	-	-	253,377	202,822	456,199
Unassigned (deficit)	<u>1,519,203</u>	<u>-</u>	<u>(275,895)</u>	<u>-</u>	<u>(112,535)</u>	<u>1,130,773</u>
Total fund balances (deficits)	<u>1,637,339</u>	<u>692,046</u>	<u>(275,895)</u>	<u>253,377</u>	<u>90,287</u>	<u>2,397,154</u>
Total liabilities and fund balances	\$ <u>1,725,807</u>	<u>692,046</u>	<u>38,410</u>	<u>261,456</u>	<u>297,596</u>	<u>3,015,315</u>

See accompanying notes to basic financial statements.

**CITY OF KING COVE, ALASKA**  
Reconciliation of Governmental Funds Balance Sheet  
to Statement of Net Assets  
June 30, 2011

Total fund balances for governmental funds \$ 2,397,154

Total net assets reported for governmental activities in the  
Statement of Net Assets is different because:

Capital assets used in governmental activities are not  
financial resources and therefore are not reported  
in the funds. These assets, net of accumulated  
depreciation consist of:

Land and land improvements	\$	414,390	
Buildings		4,971,730	
Improvements other than buildings		21,697,923	
Equipment		1,393,909	
Accumulated depreciation		<u>(4,608,396)</u>	
Total capital assets, net of depreciation			23,869,556

Long-term liabilities, including loans payable and  
accrued leave, are not due and payable in the  
current period and therefore are not reported  
as fund liabilities. These liabilities consist of:

Loans payable	(1,428,000)		
Landfill closure costs payable	(825,598)		
Accrued interest payable	(15,421)		
Accrued leave	<u>(104,615)</u>		
Total long term liabilities			<u>(2,373,634)</u>

Total net assets of governmental activities \$ 23,893,076

## CITY OF KING COVE, ALASKA

## Governmental Funds

## Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits)

Year Ended June 30, 2011

	Major Funds					Total Govern- mental Funds
	General	Permanent Fund Special Revenue	Water and Sewer Special Revenue	General Capital Projects	Nonmajor Funds	
Revenues:						
Sales and business impact taxes	\$ 1,943,699	-	-	-	-	1,943,699
Intergovernmental	693,532	-	-	2,230,600	299,361	3,223,493
Charges for services	73,604	-	300,273	-	195,033	568,910
Investment income	-	21	-	-	-	21
Other	11,486	-	-	35,000	-	46,486
Total revenues	<u>2,722,321</u>	<u>21</u>	<u>300,273</u>	<u>2,265,600</u>	<u>494,394</u>	<u>5,782,609</u>
Expenditures:						
Current:						
General government	602,174	-	-	-	-	602,174
Public safety	536,466	-	-	-	-	536,466
Public works	436,226	-	-	-	-	436,226
Community services	300,020	-	-	-	424,264	724,284
Water and sewer	-	-	212,112	-	-	212,112
Solid waste collection	-	-	-	-	108,300	108,300
Other	190,971	-	-	-	-	190,971
Debt service:						
Principal	-	-	30,893	-	-	30,893
Interest and other	-	-	87,621	-	-	87,621
Capital outlay	-	-	-	2,814,357	-	2,814,357
Total expenditures	<u>2,065,857</u>	<u>-</u>	<u>330,626</u>	<u>2,814,357</u>	<u>532,564</u>	<u>5,743,404</u>
Excess of revenues over (under) expenditures	656,464	21	(30,353)	(548,757)	(38,170)	39,205
Other financing sources (uses):						
Transfers in	-	-	-	400,000	511,386	911,386
Transfers out	(498,000)	-	-	-	(226,391)	(724,391)
Net other financing sources (uses)	<u>(498,000)</u>	<u>-</u>	<u>-</u>	<u>400,000</u>	<u>284,995</u>	<u>186,995</u>
Net change in fund balances	158,464	21	(30,353)	(148,757)	246,825	226,200
Beginning fund balances (deficit)	1,411,771	692,025	(245,542)	402,134	(89,434)	2,170,954
Change in beginning fund balances - GASB 54	<u>67,104</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(67,104)</u>	<u>-</u>
Ending fund balances (deficit)	\$ <u>1,637,339</u>	<u>692,046</u>	<u>(275,895)</u>	<u>253,377</u>	<u>90,287</u>	<u>2,397,154</u>

See accompanying notes to basic financial statements.

**CITY OF KING COVE, ALASKA**  
 Reconciliation of Change in Fund Balances of Governmental Funds  
 to Statement of Activities  
 Year Ended June 30, 2011

Net change in fund balances - total governmental funds	\$ 226,200
The change in net assets reported for governmental activities in the Statement of Activities is different because:	
Governmental funds report capital outlays as expenditures. However on the Statement of Activities, depreciation expense is recognized to allocate the cost of these items over their estimated useful lives. This is the amount by which capital outlays (\$2,801,248) exceeded depreciation (\$760,167).	
	2,041,081
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of the long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This is the amount of principal paid.	
	30,893
The governmental fund statements do not reflect the increase in long-term liabilities that are not to be paid with current financial resources. This is the amount of increase in the landfill closure liability.	
	(35,896)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This is the increase (decrease) in:	
Accrued interest payable	\$ 2,638
Annual leave	<u>(31,923)</u>
	<u>(29,285)</u>
Change in net assets of governmental activities	\$ <u>2,232,993</u>

**CITY OF KING COVE, ALASKA**  
**General Fund**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance - Budget and Actual**  
**Year Ended June 30, 2011**

	<u>Budget</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 1,775,000	2,000,000	1,943,699	(56,301)
Intergovernmental	727,000	661,095	693,532	32,437
Charges for services	63,900	63,500	73,604	10,104
Other	-	16,200	11,486	(4,714)
Total revenues	<u>2,565,900</u>	<u>2,740,795</u>	<u>2,722,321</u>	<u>(18,474)</u>
Expenditures:				
General government	713,053	677,679	602,174	75,505
Public safety	501,328	514,325	536,466	(22,141)
Public works	488,249	506,085	436,226	69,859
Community services	300,356	284,718	300,020	(15,302)
Other	135,100	137,850	190,971	(53,121)
Total expenditures	<u>2,138,086</u>	<u>2,120,657</u>	<u>2,065,857</u>	<u>54,800</u>
Excess of revenues over expenditures	427,814	620,138	656,464	36,326
Other financing uses - transfers out	<u>(700,000)</u>	<u>(578,000)</u>	<u>(498,000)</u>	<u>80,000</u>
Net change in fund balance	\$ <u>(272,186)</u>	<u>42,138</u>	158,464	<u>116,326</u>
Beginning fund balance			1,411,771	
Change in beginning fund balance - GASB 54			<u>67,104</u>	
Ending fund balance			\$ <u><u>1,637,339</u></u>	

See accompanying notes to basic financial statements.

**CITY OF KING COVE, ALASKA**  
 Permanent Fund Special Revenue Fund  
 Statement of Revenues, Expenditures and Changes in  
 Fund Balance - Budget and Actual  
 Year Ended June 30, 2011  
 With Comparative Amounts for 2010

	2011				2010
	Budget		Actual	Variance Positive (Negative)	Actual
	Original	Final			
Revenues - investment income	\$ 750	25	21	(4)	569
Excess of revenues over expenditures	750	25	21	(4)	569
Other financing sources - transfers in	100,000	-	-	-	100,000
Net change in fund balance	\$ 100,750	25	21	(4)	100,569
Beginning fund balance			692,025		591,456
Ending fund balance		\$	692,046		692,025

See accompanying notes to basic financial statements.

**CITY OF KING COVE, ALASKA**  
**Water and Sewer Special Revenue Fund**  
**Statement of Revenues, Expenditures and Changes in**  
**Deficit - Budget and Actual**  
**Year Ended June 30, 2011**  
**With Comparative Amounts for 2010**

	2011				2010
	Budget		Actual	Variance	Actual
	Original	Final		Positive (Negative)	
<b>Revenues:</b>					
Water	\$ 217,000	217,000	238,472	21,472	201,031
Sewer	57,000	57,000	61,742	4,742	55,555
State energy assistance grant	-	42,000	-	(42,000)	-
Finance charges	200	100	59	(41)	71
Total revenues	<u>274,200</u>	<u>316,100</u>	<u>300,273</u>	<u>(15,827)</u>	<u>256,657</u>
<b>Expenditures:</b>					
Water:					
Salaries	25,934	25,934	20,417	5,517	47,231
Employee benefits	11,903	11,903	8,589	3,314	19,497
Contract labor	-	3,500	3,440	60	-
Travel and per diem	-	2,000	1,752	248	-
Telephone	1,000	1,200	1,618	(418)	1,178
Supplies	8,000	17,000	19,914	(2,914)	9,432
Utilities - electric	70,000	115,000	81,645	33,355	85,771
Utilities - heat	-	6,000	6,025	(25)	-
Rent	20	85	87	(2)	2,441
Dues and fees	1,000	650	690	(40)	550
Insurance	3,799	3,918	3,919	(1)	4,634
Fuel - gas	4,500	4,500	4,324	176	3,426
Fuel - diesel	200	200	124	76	124
Test fees	3,500	4,500	2,033	2,467	4,294
Deferred compensation	1,500	1,500	648	852	1,299
Total water	<u>131,356</u>	<u>197,890</u>	<u>155,225</u>	<u>42,665</u>	<u>179,877</u>

See accompanying notes to basic financial statements.



**CITY OF KING COVE, ALASKA**  
Water and Sewer Special Revenue Fund  
Statement of Revenues, Expenditures and Changes in  
Deficit - Budget and Actual, continued

	2011				2010
	Budget			Variance	
	Original	Final	Actual	Positive (Negative)	Actual
Expenditures:					
Sewer:					
Salaries	\$ 26,092	26,092	28,127	(2,035)	23,344
Employee benefits	12,734	12,734	12,462	272	10,528
Supplies	12,000	8,000	7,877	123	8,962
Utilities - electric	5,000	7,000	7,113	(113)	6,393
Fuel - diesel	500	500	593	(93)	394
Deferred compensation	150	700	715	(15)	139
Total sewer	<u>56,476</u>	<u>55,026</u>	<u>56,887</u>	<u>(1,861)</u>	<u>49,760</u>
Debt service:					
Principal	37,300	37,300	30,893	6,407	34,756
Interest	<u>55,000</u>	<u>70,000</u>	<u>87,621</u>	<u>(17,621)</u>	<u>72,247</u>
Total debt service	<u>92,300</u>	<u>107,300</u>	<u>118,514</u>	<u>(11,214)</u>	<u>107,003</u>
Total expenditures	<u>280,132</u>	<u>360,216</u>	<u>330,626</u>	<u>29,590</u>	<u>336,640</u>
Net change in deficit	\$ <u>(5,932)</u>	<u>(44,116)</u>	(30,353)	<u>13,763</u>	(79,983)
Beginning deficit			<u>(245,542)</u>		<u>(165,559)</u>
Ending deficit		\$ <u>(275,895)</u>			<u>(245,542)</u>

See accompanying notes to basic financial statements.

## CITY OF KING COVE, ALASKA

Enterprise Funds  
Statement of Net Assets  
June 30, 2011

<u>Assets</u>	<u>Major Funds</u>			<u>Total Enterprise Funds</u>
	<u>Electric</u>	<u>City Fuel</u>	<u>Harbor and Port</u>	
Current assets:				
Receivables:				
Accounts	\$ 91,518	37,000	128,683	257,201
Grants	-	-	329,856	329,856
Allowance for doubtful accounts	(14,000)	-	(35,438)	(49,438)
Inventories	-	605,173	-	605,173
Total current assets	<u>77,518</u>	<u>642,173</u>	<u>423,101</u>	<u>1,142,792</u>
Restricted cash - bond reserves	-	-	108,404	108,404
Bond issuance cost	-	-	3,828	3,828
Property, plant and equipment:				
Land	48,372	-	-	48,372
Infrastructure	3,955,382	-	21,720,359	25,675,741
Improvements	723,045	871,489	-	1,594,534
Buildings	2,203,494	-	355,860	2,559,354
Equipment	4,901,717	-	907,482	5,809,199
Total property, plant and equipment	<u>11,832,010</u>	<u>871,489</u>	<u>22,983,701</u>	<u>35,687,200</u>
Less accumulated depreciation	<u>(4,621,233)</u>	<u>(130,722)</u>	<u>(5,211,505)</u>	<u>(9,963,460)</u>
Net property, plant and equipment	<u>7,210,777</u>	<u>740,767</u>	<u>17,772,196</u>	<u>25,723,740</u>
Total assets	<u>\$ 7,288,295</u>	<u>1,382,940</u>	<u>18,307,529</u>	<u>26,978,764</u>
<u>Liabilities and Net Assets</u>				
Liabilities:				
Current liabilities:				
Accounts payable	20,299	258,796	9,723	288,818
Accrued payroll and related liabilities	8,550	1,216	11,650	21,416
Accrued interest payable	34,924	-	15,487	50,411
Deferred revenue	1,813	-	-	1,813
Due to other funds	576,279	281,588	551,661	1,409,528
Current portion of revenue bonds	133,726	-	45,000	178,726
Total current liabilities	<u>775,591</u>	<u>541,600</u>	<u>633,521</u>	<u>1,950,712</u>
Long-term debt, net of current portion:				
Accrued leave	5,166	-	19,150	24,316
Revenue bonds	930,394	-	1,200,000	2,130,394
Unamortized bond premium	-	-	22,698	22,698
Total liabilities	<u>1,711,151</u>	<u>541,600</u>	<u>1,875,369</u>	<u>4,128,120</u>
Net assets:				
Invested in capital assets, net of related debt	6,146,657	740,767	16,504,498	23,391,922
Unrestricted (deficit)	<u>(569,513)</u>	<u>100,573</u>	<u>(72,338)</u>	<u>(541,278)</u>
Total net assets	<u>5,577,144</u>	<u>841,340</u>	<u>16,432,160</u>	<u>22,850,644</u>
Total liabilities and net assets	<u>\$ 7,288,295</u>	<u>1,382,940</u>	<u>18,307,529</u>	<u>26,978,764</u>

See accompanying notes to basic financial statements.

**CITY OF KING COVE, ALASKA**  
**Enterprise Funds**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Year Ended June 30, 2011**

	<u>Major Funds</u>			<u>Total</u>
	<u>Electric</u>	<u>City Fuel</u>	<u>Harbor and Port</u>	<u>Enterprise Funds</u>
Operating revenues - charges for services	\$ <u>1,313,272</u>	<u>496,874</u>	<u>425,296</u>	<u>2,235,442</u>
Operating expenses:				
Salaries and benefits	221,050	27,798	309,707	558,555
Other purchased services and supplies	731,782	301,663	99,172	1,132,617
Depreciation	<u>353,979</u>	<u>43,574</u>	<u>438,850</u>	<u>836,403</u>
Total operating expenses	<u>1,306,811</u>	<u>373,035</u>	<u>847,729</u>	<u>2,527,575</u>
Income (loss) from operations	6,461	123,839	(422,433)	(292,133)
Nonoperating revenues (expenses):				
Interest expense	(60,284)	-	(49,383)	(109,667)
Senior power subsidy	(46,181)	-	-	(46,181)
Sales tax	-	-	10,532	10,532
State PERS relief	<u>10,600</u>	-	<u>14,801</u>	<u>25,401</u>
Net nonoperating revenues (expenses)	<u>(95,865)</u>	<u>-</u>	<u>(24,050)</u>	<u>(119,915)</u>
Income (loss) before contributions and transfers	<u>(89,404)</u>	<u>123,839</u>	<u>(446,483)</u>	<u>(412,048)</u>
Capital contributions	-	-	2,586,919	2,586,919
Transfers in	-	-	224,391	224,391
Transfers out	<u>-</u>	<u>-</u>	<u>(411,386)</u>	<u>(411,386)</u>
Change in net assets	(89,404)	123,839	1,953,441	1,987,876
Beginning net assets, restated (Note 17)	<u>5,666,548</u>	<u>717,501</u>	<u>14,478,719</u>	<u>20,862,768</u>
Ending net assets	\$ <u><u>5,577,144</u></u>	<u><u>841,340</u></u>	<u><u>16,432,160</u></u>	<u><u>22,850,644</u></u>

See accompanying notes to basic financial statements.

## CITY OF KING COVE, ALASKA

Major Enterprise Funds  
Statement of Cash Flows  
Year Ended June 30, 2011

	Major Funds			Total Enterprise Funds
	<u>Electric</u>	<u>City Fuel</u>	<u>Harbor and Port</u>	
Cash flows from operating activities:				
Receipts from customers and users	\$ 1,283,005	459,874	342,583	2,085,462
Payments to suppliers	(719,620)	(730,080)	(89,449)	(1,539,149)
Payments to employees	(211,000)	(27,421)	(276,998)	(515,419)
Net cash flows from operating activities	<u>352,385</u>	<u>(297,627)</u>	<u>(23,864)</u>	<u>30,894</u>
Cash flows from noncapital financing activities:				
Senior power subsidy	(46,181)	-	-	(46,181)
Increase (decrease) in due to other funds	(203,496)	281,588	551,661	629,753
Transfers to other funds	-	-	(411,386)	(411,386)
Net cash flows from noncapital financing activities	<u>(249,677)</u>	<u>281,588</u>	<u>140,275</u>	<u>172,186</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	(30,050)	-	(3,219,435)	(3,249,485)
Proceeds from issuance of revenue bonds	-	-	763,870	763,870
Principal payments on long-term debt	(42,228)	-	-	(42,228)
Interest payments on long-term debt	(30,430)	-	(33,896)	(64,326)
Capital contributions received	-	-	2,257,063	2,257,063
Transfers in	-	-	224,391	224,391
Net cash flows from capital and related financing activities	<u>(102,708)</u>	<u>-</u>	<u>(8,007)</u>	<u>(110,715)</u>
Net increase (decrease) in cash and investments	-	(16,039)	108,404	92,365
Beginning cash and investments	-	16,039	-	16,039
Ending cash and investments	\$ <u>-</u>	<u>-</u>	<u>108,404</u>	<u>108,404</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:				
Income (loss) from operations	6,461	123,839	(422,433)	(292,133)
Adjustments to reconcile income (loss) from operations to net cash flows from operating activities:				
Depreciation	353,979	43,574	438,850	836,403
Noncash expense - PERS relief	10,600	-	14,801	25,401
Sales tax revenue	-	-	10,532	10,532
(Increase) decrease in assets:				
Accounts receivable (net)	(31,132)	(37,000)	(93,245)	(161,377)
Inventories	-	(328,356)	-	(328,356)
Increase (decrease) in liabilities:				
Accounts payable	12,162	(100,061)	9,723	(78,176)
Accrued payroll and related liabilities	(191)	377	11,650	11,836
Deferred revenue	865	-	-	865
Accrued leave	(359)	-	6,258	5,899
Net cash flows from operating activities	\$ <u>352,385</u>	<u>(297,627)</u>	<u>(23,864)</u>	<u>30,894</u>

See accompanying notes to basic financial statements.

# CITY OF KING COVE, ALASKA

## Notes to Basic Financial Statements

June 30, 2011

### (1) Summary of Significant Accounting Policies

#### Reporting Entity

The City of King Cove was incorporated in 1949 under the laws of the State of Alaska as a first-class city. The City operates under a council-administrator form of government and provides a full range of services to its citizens including public safety, streets, health and social services, electric, water and sewer, boat harbor, community projects, and general administration.

The financial statements included in this report are for the City of King Cove only. There are no component units for which the City of King Cove is financially accountable, nor do any special financial relationships exist between the City and any other entity.

The accounting policies of the City of King Cove conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

#### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the City. In general, the effect of interfund activity has been removed from these statements to minimize the double-counting of internal activities. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely primarily on fees and charges to external parties.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) fees, fines and charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

## CITY OF KING COVE, ALASKA

### Notes to Basic Financial Statements, continued

#### **Summary of Significant Accounting Policies, continued**

##### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation, continued**

Governmental fund financial statements are reported using the current financial resources measurement focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only to the extent they have matured.

Sales and business impact taxes, charges for services, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when received by the government.

The City reports the following major funds –

#### Major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be reported in another fund.

The *Permanent Fund Special Revenue Fund* accounts for monies set aside to help provide future benefits for public safety and welfare, specifically emergency needs or essential public service needs of the citizens of King Cove.

The *Water and Sewer Special Revenue Fund* accounts for the operation of the water and sewer system.

The *General Capital Projects Fund* accounts for activities relating to various capital improvements for the City.

#### Major proprietary funds:

The *Electric Enterprise Fund* is used to account for the operations of the electric utility.

The *City Fuel Enterprise Fund* is used to account for the purchase, sale, and use of fuel.

The *Harbor and Port Enterprise Fund* is used to account for the operations of the harbor and port.

All of the funds listed as major meet accounting standards required quantitative criteria, except the Permanent Fund Special Revenue Fund which has been reported as major due to public interest.

## CITY OF KING COVE, ALASKA

### Notes to Basic Financial Statements, continued

#### **Summary of Significant Accounting Policies, continued**

##### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation, continued**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are allocated administration fees and charges between the enterprise funds and the various other funds and departments. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. In addition, general revenues include all taxes, investment income, and State entitlement revenues.

Enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the costs of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### **Central Treasury**

A central treasury is used to account for cash from all funds of the City to maximize interest income.

#### **Cash and Cash Equivalents**

For purposes of the statement of cash flows, the enterprise funds consider all cash accounts to be cash and cash equivalents. The central treasury, which holds cash and investments, is used essentially as a cash management pool by each fund.

#### **Inventories**

Inventories are valued at cost (first-in, first-out). The cost is recorded as an expenditure or expense at the time individual inventory items are consumed.

## CITY OF KING COVE, ALASKA

### Notes to Basic Financial Statements, continued

#### **Summary of Significant Accounting Policies, continued**

##### **Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "due to / from other funds" (i.e., the current portion of interfund loans) or "advances to / from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

##### **Grants and Other Intergovernmental Revenues**

In applying the measurable and available concepts to grants and intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts are considered "earned"; therefore, revenues are recognized based upon expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the measurable and available criteria are met.

##### **Interfund Transactions**

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers.

##### **Compensated Absences**

The City allows employees to accumulate earned but unused vacation and sick leave benefits. All vacation pay is accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental fund financial statements only if they have matured (e.g. the employee has terminated employment).

##### **Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, etc.) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. As a phase 3 government for GASB Statement 34 purposes, the City records additions to infrastructure capital assets (e.g. roads and streets) prospectively from the GASB Statement 34 implementation date, which was June 30, 2004. Capital assets are defined by the City as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.



## CITY OF KING COVE, ALASKA

### Notes to Basic Financial Statements, continued

#### **Summary of Significant Accounting Policies, continued**

##### **Capital Assets, continued**

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the useful life of the asset are not capitalized.

Property, plant, and equipment of the City is depreciated using the straight line method over the following estimated useful lives:

Buildings	20-50 years
Improvements other than buildings	20-50 years
Service lines	20 years
Machinery and equipment	3-20 years

##### **Long-Term Debt**

In the government-wide and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

##### **Fund Balances**

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form—prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of fund balances comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

*Restricted fund balance.* This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed fund balance.* These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the City Council—the City's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the City Council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

## CITY OF KING COVE, ALASKA

### Notes to Basic Financial Statements, continued

#### **Summary of Significant Accounting Policies, continued**

##### **Fund Balances, continued**

*Assigned fund balance.* This classification reflects the amounts constrained by the City's "intent" to be used for specific purposes, but are neither restricted nor committed. The City Council and City Administrator have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

*Unassigned fund balance.* This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to use externally restricted resources first, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

##### **Encumbrances**

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and Special Revenue Funds. Any encumbrances outstanding at year end are reported as appropriate constraints of fund balances if they meet the definitions and criteria as outlined above.

##### **Deferred Grant Revenue**

Amounts received from grantor agencies, which are restricted as to use and have not been expended for the intended use are shown as deferred revenue.

##### **Pension Plan**

Substantially all employees of the City participate in the Public Employees' Retirement System (PERS) administered by the State of Alaska.

##### **Comparative Data**

Comparative data for the prior year have been presented in some of the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations.

#### **(2) Stewardship, Compliance and Accountability**

##### **Budgetary Accounting**

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to May 1, the City Administrator submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

## CITY OF KING COVE, ALASKA

### Notes to Basic Financial Statements, continued

#### **Stewardship, Compliance and Accountability, continued**

##### **Budgetary Accounting, continued**

2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance.
4. The City Administrator is authorized to transfer budgeted amounts within departments; however, any revisions that alter the total expenditures of any fund or department within a fund must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds. Appropriations for these funds lapse at year end to the extent they have not been expended or encumbered.
6. Budgets for governmental fund types are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

##### **Deficits**

The following funds had deficit positions in fund balance at of June 30, 2011:

##### Special Revenue Funds:

Water and Sewer	\$ (275,895)
Housing and Community Projects	(92,860)
Water Pipe Capital Project Fund	(19,675)

##### **Compliance with Bond Covenants**

The 1995 electric utility revenue bonds require that the City will establish, maintain and collect rates and charges for all services or facilities supplied by the system in each fiscal year that will provide net revenues in an amount equal to at least 1.1 times the amount of the annual debt service requirement for such year on all outstanding bonds and outstanding parity bonds.

Income from operations, excluding depreciation expense – amount available for debt service	\$ 360,440
Less debt service requirement of the 1995 revenue bonds x 1.1	<u>159,840</u>
Net revenue over debt service requirement	\$ <u>200,600</u>

As shown above, the City met the revenue requirement for the year ended June 30, 2011. In addition, certain covenants of the 1995 revenue bonds require the City to maintain reserve and redemption accounts. These requirements were not being met at June 30, 2011.

## CITY OF KING COVE, ALASKA

### Notes to Basic Financial Statements, continued

(3) **Cash and Investments**

Except for the Permanent Fund, all cash is maintained in a central treasury and is available for use by all funds. Each fund's portion of the central treasury is displayed on the balance sheet as "cash and investments" or in the case of "negative cash," is included in "due to other funds." All of the City's cash is held in the form of demand accounts including checking, savings, short-term certificates of deposit, and overnight repurchase agreements held by commercial banks.

**Reconciliation of Deposit and Investment Balances**

A reconciliation of cash and investments as shown on the statement of net assets follows:

Cash	\$ 545,028	Cash and investments	622,730
Pooled investments	<u>186,106</u>	Restricted cash	<u>108,404</u>
	<u>\$ 731,134</u>		<u>731,134</u>

*Investment policy*

The investment policy authorizes the City to invest in certificates of deposit, U.S. Treasury securities, government bonds and notes, money markets, mutual funds, and an investment pool authorized by Alaska Statutes. Investments are carried at fair value.

*Interest rate risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

*Credit risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Pooled investments are invested with the Alaska Municipal League Investment Pool, Inc. (AMLIP). The AMLIP is an external investment pool which is rated AAAM for credit risk purposes. Alaska Statute 37.23 establishes regulatory oversight of the Pool. The law sets forth numerous requirements regarding authorized investments and reporting. The share value of investments in the AMLIP is approximately equal to fair value.

*Custodial credit risk*

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. To limit credit risk, City policy requires that all deposits be insured or covered by collateralization agreements.

(4) **Investment in Southwest Governments, LLC**

The City purchased a 10 percent ownership in Southwest Governments, LLC, an investment company formed to buy an office building in Anchorage, Alaska. The office building was purchased in May 2002 and is currently rented to outside parties, including the group that owns Southwest Governments, LLC. The City's investment in Southwest Governments, LLC, is recorded on the cost method.

# CITY OF KING COVE, ALASKA

## Notes to Basic Financial Statements, continued

### (5) Capital Assets

As discussed further in Note 17 in 2011, the City converted its Harbor and Port Fund from a special revenue fund to an enterprise fund. This conversion resulted in a reclassification from Governmental activities to Business-type activities capital assets and accumulated depreciation of \$19,764,265 and \$4,772,655, respectively. These amounts are reflected capital asset additions and deletions below.

Capital asset activity for the year ended June 30, 2011 was as follows:

	Balance July 1, 2010	Additions and Reclass- ifications	Deletions and Reclass- ifications	Balance June 30, 2011
<b><u>Governmental activities</u></b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 414,390	-	-	414,390
Construction in progress	10,929,196	2,788,648	13,717,844	-
Total assets not being depreciated	11,343,586	2,788,648	13,717,844	414,390
<i>Capital assets being depreciated:</i>				
Buildings	5,327,590	-	355,860	4,971,730
Improvements other than buildings	26,481,003	10,321,947	15,105,027	21,697,923
Equipment	2,288,791	12,600	907,482	1,393,909
Total assets being depreciated	34,097,384	10,334,547	16,368,369	28,063,562
Less accumulated depreciation for:				
Buildings	1,412,152	159,590	64,054	1,507,688
Improvements other than buildings	5,965,831	500,451	4,295,968	2,170,314
Equipment	1,242,901	100,126	412,633	930,394
Total accumulated depreciation	8,620,884	760,167	4,772,655	4,608,396
Total capital assets being depreciated, net	25,476,500	9,574,380	11,595,714	23,455,166
Governmental activity capital assets, net	\$ 36,820,086	12,363,028	25,313,558	23,869,556
<b><u>Business-type activities</u></b>				
<i>Capital assets not being depreciated –</i>				
	\$ 48,372	-	-	48,372
<i>Capital assets being depreciated:</i>				
Buildings	2,203,494	355,860	-	2,559,354
Improvements other than buildings	5,519,866	21,750,409	-	27,270,275
Equipment	4,901,717	907,482	-	5,809,199
Total assets being depreciated	12,625,077	23,013,751	-	35,638,828

# CITY OF KING COVE, ALASKA

## Notes to Basic Financial Statements, continued

### Capital Assets, continued

#### Business-type activities, continued

	Balance July 1, 2010	Additions and Reclass- ifications	Deletions and Reclass- ifications	Balance June 30, 2011
Less accumulated depreciation for:				
Buildings	\$ 836,886	131,960	-	968,846
Improvements other than buildings	1,934,243	4,852,595	-	6,786,838
Equipment	1,583,273	624,503	-	2,207,776
Total accumulated depreciation	4,354,402	5,609,058	-	9,963,460
 Total capital assets being depreciated, net	 8,270,675	 17,404,693	 -	 25,675
 Business-type activity capital assets, net	 \$ 8,319,047	 17,404,693	 -	 25,675

Depreciation expense was charged to the functions as follows:

#### Governmental activities

General government
Public safety
Public works
Water and sewer
Solid waste
Community services
Total depreciation expense - governmental activities

#### Business-type activities

Electric
City fuel
Boat harbor and port
Total depreciation expense - business-type activities

### (6) Interfund Receivables, Payables and Transfers

A schedule of interfund balances and transfers for the year

#### Due to other funds

Due to General Fund for advances to cover operations and capital costs from:
Water and Sewer Special Revenue Fund
Izembeck Land Exchange Special Revenue Fund

Govt  
assets  
Business  
Capital  
Land  
Capital a  
Building  
Improvements  
Equipment  
Total

## CITY OF KING COVE, ALASKA

### Notes to Basic Financial Statements, continued

#### **Interfund Receivables, Payables and Transfers, continued**

##### ***Due to other funds, continued***

Water Pipe Capital Project Fund	\$ 19,675
Electric Enterprise Fund	576,279
City Fuel Enterprise Fund	281,588
Harbor and Port Enterprise Fund	<u>88,794</u>
Total due to General Fund	1,323,592
Due to Permanent Fund Special Revenue Fund for advances to cover operating and capital costs from Harbor and Port Enterprise Fund	69,316
Due to General Capital Projects Fund for advances to cover operating and capital costs from Harbor and Port Enterprise Fund	171,901
Due to nonmajor funds for advances to cover operating and capital costs from Harbor and Port Enterprise Fund	<u>221,650</u>
Total due to other funds	\$ <u>1,786,459</u>

##### ***Transfers***

###### From General Fund to:

Vehicle and Machinery Replacement Capital Project Fund for equipment	\$ 75,000
General Capital Projects Fund for capital projects	400,000
Harbor and Port Enterprise Fund for capital projects	<u>23,000</u>
Total transfers from General Fund	498,000
Harbor and Port Enterprise Fund to the North Old Harbor Capital Projects Fund to close fund	401,386
Harbor and Port Special Revenue Fund to the Harbor and Port Enterprise Fund to close fund	201,391
Harbor and Port Enterprise Fund to the Solid Waste Collection Special Revenue Fund for equipment and operations	10,000
Housing and Community Projects Special Revenue Fund to Vehicle and Machinery Replacement Capital Project Fund for equipment	<u>25,000</u>
Total transfers to other funds	\$ <u>1,135,777</u>

# CITY OF KING COVE, ALASKA

## Notes to Basic Financial Statements, continued

### (7) Notes Payable

In October 2001, the City borrowed \$400,000 from the Docket 369 Committee to pay for gravel dredging from the new harbor. In 2009, a settlement was reached with the Docket 369 Committee whereby the City will pay \$200,000 on the loan and the balance will be forgiven. At June 30, 2011, \$100,000 has been paid to the Docket 369 Committee. As a result of the agreement between the City and Docket 369 Committee, the Housing and Community Projects Special Revenue Fund recognized the \$200,000 of debt forgiveness as revenue for the year ended June 30, 2009. The balance still owing on the loan at June 30, 2011 is \$100,000.

The City also had a line of credit to assist with construction costs. The balance on this line of credit was \$841,955 at June 30, 2010. The City drew down an additional \$1,872,578 during FY11 and paid off the entire balance in December 2010.

### (8) Long - Term Debt

The following is a summary of long-term debt transactions for the year ended June 30, 2011:

	Balance July 1, 2010	Additions	Retired	Balance June 30, 2011	Due Within One Year
<b><u>Governmental Activities</u></b>					
\$1,375,000 USDA water project loan, due in semi-annual installments of \$37,300 including interest through March 2040; interest at 4.5%	\$ 1,203,893	-	15,893	1,188,000	22,080
\$300,000 Delta Creek water project loan, due in annual installments of \$15,000 plus interest through January 2027; interest at 1.5%	255,000	-	15,000	240,000	15,000
Landfill closure costs	789,702	35,896	-	825,598	-
Accrued leave (net)	<u>85,584</u>	<u>81,504</u>	<u>62,473</u>	<u>104,615</u>	<u>-</u>
Total governmental activities	\$ <u>2,334,179</u>	<u>117,400</u>	<u>93,366</u>	<u>2,358,213</u>	<u>37,080</u>

### **Business-type Activities**

\$1,961,500 1995 electric utility revenue bonds, due in semi-annual installments of \$72,656, including interest through May 2020; interest at 5.5%	\$ 1,106,348	-	42,228	1,064,120	133,726
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# CITY OF KING COVE, ALASKA

## Notes to Basic Financial Statements, continued

### Long - Term Debt, continued

	Balance July 1, 2010	Additions	Retired	Balance June 30, 2011	Due Within One Year
<b><u>Business-type Activities, continued</u></b>					
\$745,000 Harbor revenue bond, due in annual installments of \$25,000 to \$50,000 through 2030; interest at 2.00% to 5.43%	\$ -	745,000	-	745,000	25,000
\$500,000 Harbor revenue bond, due in annual installments of \$20,000 to \$35,000 through 2029; interest at 2.00% to 6.04%	500,000	-	-	500,000	20,000
Accrued leave (net)	<u>5,525</u>	<u>34,450</u>	<u>15,659</u>	<u>24,316</u>	<u>-</u>
Total business-type activities	\$ <u>1,611,873</u>	<u>779,450</u>	<u>57,887</u>	<u>2,333,436</u>	<u>178,726</u>

The annual requirements to pay all general long-term debt outstanding (exclusive of accrued leave and landfill closure costs) as of June 30, 2011 are as follows:

### Governmental activities

Year Ended June 30,	Water Loans		
	Principal	Interest	Total
2012	\$ 37,080	56,120	93,200
2013	38,085	54,890	92,975
2014	39,136	53,614	92,750
2015	40,234	52,291	92,525
2016	41,382	50,918	92,300
2017-2021	226,051	233,199	459,250
2022-2026	263,693	188,807	452,500
2027-2031	250,716	137,509	388,225
2032-2036	294,457	78,543	373,000
2037-2040	<u>197,166</u>	<u>12,982</u>	<u>210,148</u>
	\$ <u>1,428,000</u>	<u>918,873</u>	<u>2,346,873</u>

# CITY OF KING COVE, ALASKA

## Notes to Basic Financial Statements, continued

### Long - Term Debt, continued

#### Business-type activities

Year Ended June 30,	Electric Revenue Bond			Harbor Revenue Bonds			
	Principal	Interest	Total	Principal	Interest	Federal Subsidy	Total
2012	\$ 133,726	54,917	188,643	45,000	60,857	(19,471)	86,386
2013	95,425	49,877	145,302	50,000	55,604	(18,254)	87,350
2014	100,745	44,557	145,302	50,000	54,254	(18,255)	85,999
2015	106,362	38,940	145,302	50,000	52,754	(18,254)	84,500
2016	112,293	33,009	145,302	50,000	51,704	(18,255)	83,449
2017-2021	515,569	65,838	581,407	295,000	225,777	(87,299)	433,478
2022-2026	-	-	-	340,000	151,860	(61,860)	430,000
2027-2031	-	-	-	365,000	52,609	(21,591)	396,018
	<u>\$ 1,064,120</u>	<u>287,138</u>	<u>1,351,258</u>	<u>1,245,000</u>	<u>705,419</u>	<u>(263,239)</u>	<u>1,687,180</u>

(9) **Municipal Landfill Closure and Postclosure Liability**

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date the landfill stops accepting waste, generally accepted accounting principles require that the City report a portion of these closure and postclosure care costs each period based on landfill capacity used as of each balance sheet date.

The \$825,598 (an increase of \$35,896 from June 30, 2010) reported as landfill closure costs payable at June 30, 2011, represents the cumulative amount reported to date based on a study conducted several years ago. The final closure costs may vary significantly from the above estimate.

At June 30, 2011, the City has not reserved or designated any fund balance to fund the cost of closure and post closure monitoring, nor have any assets been restricted for this purpose.

(10) **Fund Balances**

The City has implemented the provisions of GASB Statement Number 54, Fund Balance Reporting and Governmental Fund Type Definitions for the year ended June 30, 2011. Fund balances, reported in the City's individual major funds and nonmajor funds in the aggregate on the governmental funds balance sheet is subject to the following constraints:

# CITY OF KING COVE, ALASKA

## Notes to Basic Financial Statements, continued

### Fund Balances, continued

	<u>General</u>	<u>Permanent Fund Special Revenue</u>	<u>Water and Sewer Special Revenue</u>	<u>General Capital Project</u>	<u>Nonmajor Funds</u>	<u>Totals</u>
Nonspendable – investment in Southwest Governments, LLC	\$ <u>118,136</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>118,136</u>
Committed – Permanent Fund	<u>-</u>	<u>692,046</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>692,046</u>
Assigned:						
Solid waste collection	-	-	-	-	71,532	71,532
Vehicle and machinery replacement	-	-	-	-	131,290	131,290
Capital projects	<u>-</u>	<u>-</u>	<u>-</u>	<u>253,377</u>	<u>-</u>	<u>253,377</u>
Total assigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>253,377</u>	<u>202,822</u>	<u>456,199</u>
Unassigned (deficit)	<u>1,519,203</u>	<u>-</u>	<u>(275,895)</u>	<u>-</u>	<u>(112,535)</u>	<u>1,130,773</u>
Total fund balances	\$ <u>1,637,339</u>	<u>692,046</u>	<u>(275,895)</u>	<u>253,377</u>	<u>90,287</u>	<u>2,397,154</u>

In addition, as a result of the adoption of GASB Statement Number 54, the City has evaluated all funds in connection with fund definitions. As a result of this review the City determined that the Aleutia Grant Special Revenue Fund no longer meets the “restricted or committed revenue streams” criteria and has been consolidated into the General Fund. In addition, the Vehicle and Machinery Replacement Special Revenue Fund has been converted into the Vehicle and Machinery Replacement Capital Project Fund.

As a result, opening fund balances of the governmental funds has been restated to reflect the cumulative effect of this change. Fund balance did change in total.

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Totals</u>
Fund balances as previously reported	\$ 1,411,771	(334,976)	1,076,795
GASB 54 – close of one Special Revenue Fund	<u>67,104</u>	<u>(67,104)</u>	<u>-</u>
Fund balances as restated	\$ <u>1,478,875</u>	<u>(402,080)</u>	<u>1,076,795</u>

## CITY OF KING COVE, ALASKA

### Notes to Basic Financial Statements, continued

(11) **Defined Benefit Pension Plan**

The City participates in the Public Employees' Retirement System (PERS). PERS is a cost-sharing multiple employer plan which covers eligible State and local government employees, other than teachers. The plan was established and is administered by the State of Alaska Department of Administration to provide pension, postemployment healthcare, death, and disability benefits. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

The Plan is included in a comprehensive annual financial report that includes financial statements and other required supplemental information. The report is available at the following address:

Department of Administration  
Division of Retirement and Benefits  
P.O. Box 110203  
Juneau, Alaska 99811-0203

**Conversion to Cost Sharing**

In April 2008, the Alaska Legislature passed Senate Bill (SB) 125 which converted the existing Public Employees Retirement System (PERS) from an agent-multiple employer plan to a cost-sharing plan with an effective date of July 1, 2008. Under the cost-sharing arrangement, the State of Alaska Division of Retirement and Benefits no longer tracks individual employer assets and liabilities. Rather, all plan costs and past service liabilities are shared among all participating employers. The cost-sharing plan requires a uniform employer contribution rate of 22% of active member wages, subject to a wage floor. Legislation provides for State contributions in the event that the annually calculated and board adopted rate, which includes a provision to pay down the past-service liability, exceeds 22%. Any such additional contributions are recognized by each employer as an on-behalf payment. In addition, in fiscal year 2008, the State of Alaska passed legislation (SB 123) which requires that the employer contribution be calculated on all PERS eligible wages, including wages attributable to the defined contribution plan described later in these footnotes.

**Funding Policy**

Regular employees are required to contribute 6.75% of their annual covered salary (2.41% for pension and 4.34% for healthcare). Police and firefighters are required to contribute 7.5% of their annual covered salary (2.68% for pension and 4.82% for healthcare).

The funding policy provides for periodic employer contributions based on actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate assets to pay both pension and postemployment healthcare benefits when due.

Under current legislation, the employer contribution rate is statutorily capped at 22%, however, the State of Alaska contributes any amount over 22% such that the total contribution equals the Alaska Retirement Management Board adopted rate, generally consistent with the actuarially determined rate.

## CITY OF KING COVE, ALASKA

### Notes to Basic Financial Statements, continued

#### **Defined Benefit Pension Plan, continued**

##### **Funding Policy, continued**

The City's contribution rates for 2011 were determined as part of the June 30, 2007 actuarial valuation and are as follows:

	Contractual <u>Rate</u>	ARM Board Adopted <u>Rate</u>	GASB 45* <u>Rate</u>
Pension	7.85%	9.98%	13.49%
Postemployment healthcare	<u>14.15%</u>	<u>17.98%</u>	<u>55.87%</u>
Total contribution rate	<u>22.00%</u>	<u>27.96%</u>	<u>69.36%</u>

\* This rate uses a 4.5% OPEB discount rate and disregards all future Medicare Part D payments.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the plan members at that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial values of assets.

Projected benefits for financial reporting purposes do not incorporate any potential effects of legal or contractual funding limitations.

#### **Annual Pension and Postemployment Healthcare Cost**

The City is required to contribute 22% of covered payroll, subject to a wage floor. In addition, the State of Alaska contributed approximately 8.25% (2.29 percentage points higher than the required 5.96%) of covered payroll to the Plan. In accordance with the provisions of GASB Statement Number 24, the City has recorded the State on-behalf payment in the amount of \$80,430 as revenue and expenditures in these financial statements. However, because the City is not statutorily obligated for these payments, this amount is excluded from pension and OPEB cost as described here.

## CITY OF KING COVE, ALASKA

### Notes to Basic Financial Statements, continued

#### **Defined Benefit Pension Plan, Continued**

##### **Annual Pension and Postemployment Healthcare Cost, continued**

<u>Year Ended June 30</u>	<u>Annual Pension Cost</u>	<u>Annual OPEB Cost</u>	<u>Total Benefit Cost (TBC)</u>	<u>City Contri- butions</u>	<u>% of TBC Contributed</u>
2011	\$ 66,519	\$ 119,903	\$ 186,422	\$ 186,422	100%
2010	73,065	123,924	196,989	196,989	100%
2009	61,497	136,879	198,376	198,379	100%

#### (12) **Defined Contribution Pension Plan**

The State of Alaska Legislature approved Senate Bill 141 to create the Public Employees' Retirement System (PERS) Tier IV for employees hired after July 1, 2006 or for employees converting from the PERS Tier I, II or III defined benefit plans. The plan is administered by the State of Alaska, Department of Administration, and benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Alaska Retirement Management Board may also amend contribution requirements. Included in the plan are individual pension accounts, retiree medical insurance plan and a separate Health Reimbursement Arrangement account that will help retired members pay medical premiums and other eligible medical expenses not covered by the medical plan. Employees are required to contribute 8.0% of their annual covered salary, and the City is required to make the following contributions:

	<u>Others Tier IV</u>	<u>Police/Fire Tier IV</u>
Individual account	5.00%	5.00%
Health reimbursement arrangement (HRA) *	3.00	3.00
Retiree medical plan	0.56	0.48
Occupational death and disability benefits	<u>0.31</u>	<u>1.18</u>
	<u>8.87 %</u>	<u>9.66%</u>

\*Health Reimbursement Arrangement – AS 39.30.370 requires that the employer contribute “an amount equal to three percent of the average employer’s average annual employee compensation.” For actual remittance, this amount is calculated as a flat rate for each full time or part-time employee per pay period.

Employees are immediately vested in their own contributions and vest 25% per year in employer contributions. The City and employee contributions to PERS including the HRA contribution for the year ended June 30, 2011 were \$36,899 and \$29,021, respectively.

## CITY OF KING COVE, ALASKA

### Notes to Basic Financial Statements, continued

(13) **Deferred Compensation Plan**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The provisions of the plan require that all assets and income of the plan be held in trust for the exclusive benefit of participants and their beneficiaries.

(14) **Permanent Fund**

Per City Code 5.05.225 there is hereby established a capital reserve account (Permanent Fund). It is the City's intent in establishing this fund that it be used to purchase new equipment, replace existing equipment, or make major repairs to existing equipment or facilities so the City has adequate capital facilities and equipment to provide the public services it delivers. In addition, the fund can be used for the public safety and welfare of residents of the City if emergency needs exist.

(15) **Risk Management**

The City faces a considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability; i.e., errors and omissions, (d) environmental damage, (e) workers' compensation; i.e., employee injuries, and (f) medical insurance costs of employees. Commercial policies transferring the risk of loss, except for relatively small deductible amounts, are purchased for employee medical costs. The City participates in the Alaska Municipal League Joint Insurance Association (AML/JIA) which provides insurance coverage for property and contents damage, torts, general and automobile liability, and worker's compensation. The AML/JIA is a public entity risk pool organized to share risks among its members. The Association's bylaws provide for the assessment of supplemental contributions from members in the event that losses and expenses for any coverage year exceed the annual contributions and income earned on such contributions for the year. Such supplemental contributions shall be based on each member's annual deposit contribution in comparison to the aggregate annual deposit contributions of all members. The Association made no supplemental assessments during the year ended June 30, 2011. The City has no coverage for potential losses from environmental damages. Coverage limits and the deductibles on the policies have stayed relatively constant for the last several years.

(16) **Contingent Liabilities**

The City participates in a number of State and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

## CITY OF KING COVE, ALASKA

### Notes to Basic Financial Statements, continued

(17) **Conversion of Special Revenue Fund**

The City has issued \$1,245,000 of harbor revenue bonds to assist with the harbor projects. Governmental Accounting Standards Board Statement Number 34 requires a fund with outstanding revenue bonds to be an enterprise fund. As a result, effective July 1, 2010, the Harbor and Port Special Revenue Fund was converted to the Harbor and Port Enterprise Fund.



## **SUPPLEMENTARY INFORMATION**

**CITY OF KING COVE, ALASKA**  
**Nonmajor Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2011**

<u>Assets</u>	<u>Special Revenue Funds</u>			<u>Capital Project Funds</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Solid Waste Collection</u>	<u>Housing and Community Projects</u>	<u>Izembek Land Exchange</u>	<u>Water Pipe</u>	<u>Vehicle and Machinery Replacement</u>	
Accounts receivable	\$ 11,316	3,323	-	-	-	14,639
Grants receivable	-	-	61,307	-	-	61,307
Due from other funds	67,349	22,368	-	-	131,933	221,650
Total assets	\$ 78,665	25,691	61,307	-	131,933	297,596
<u>Liabilities and Fund Balances</u>						
Liabilities:						
Accounts payable	2,753	15,496	10,989	-	643	29,881
Accrued payroll and related liabilities	4,380	3,055	-	-	-	7,435
Note payable	-	100,000	-	-	-	100,000
Due to other funds	-	-	50,318	19,675	-	69,993
Total liabilities	7,133	118,551	61,307	19,675	643	207,309
Fund balances (deficits):						
Assigned:						
Solid waste collection	71,532	-	-	-	-	71,532
Vehicle and machinery replacement	-	-	-	-	131,290	131,290
Unassigned (deficit)	-	(92,860)	-	(19,675)	-	(112,535)
Total fund balances (deficits)	71,532	(92,860)	-	(19,675)	131,290	90,287
Total liabilities and fund balances	\$ 78,665	25,691	61,307	-	131,933	297,596

**CITY OF KING COVE, ALASKA**  
**Nonmajor Governmental Funds**  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits)  
Year Ended June 30, 2011

	Special Revenue Funds						Capital Projects Funds			Total
	Harbor and Port	Solid Waste Collection	Housing and Community Projects	Vehicle and Machinery Replacement	Aluetia Grant	Izembek Land Exchange	Water Pipe	North Old Boat Harbor	Vehicle and Machinery Replace- ment	Nonmajor Govern- mental Funds
Revenues:										
Intergovernmental	\$ -	4,592	-	-	-	294,769	-	-	-	299,361
Charges for services	-	104,456	90,577	-	-	-	-	-	-	195,033
Total revenues	-	109,048	90,577	-	-	294,769	-	-	-	494,394
Expenditures:										
Community services	-	-	109,322	-	-	294,769	-	-	20,173	424,264
Solid waste collection	-	108,300	-	-	-	-	-	-	-	108,300
Total expenditures	-	108,300	109,322	-	-	294,769	-	-	20,173	532,564
Excess of revenues over (under) expenditures	-	748	(18,745)	-	-	-	-	-	(20,173)	(38,170)
Other financing sources (uses):										
Transfers in	-	10,000	-	-	-	-	-	401,386	100,000	511,386
Transfers out	(201,391)	-	(25,000)	-	-	-	-	-	-	(226,391)
Net other financing sources (uses)	(201,391)	10,000	(25,000)	-	-	-	-	401,386	100,000	284,995
Net change in fund balances	(201,391)	10,748	(43,745)	-	-	-	-	401,386	79,827	246,825
Beginning fund balances (deficits)	201,391	60,784	(49,115)	51,463	67,104	-	(19,675)	(401,386)	-	(89,434)
Change in beginning fund balances - GASB 54	-	-	-	(51,463)	(67,104)	-	-	-	51,463	(67,104)
Ending fund balances (deficits)	\$ -	71,532	(92,860)	-	-	-	(19,675)	-	131,290	90,287

**CITY OF KING COVE, ALASKA**  
 General Fund  
 Balance Sheet  
 June 30, 2011  
 With Comparative Amounts for 2010

<u>Assets</u>	<u>2011</u>	<u>2010</u>
Receivables:		
Accounts	\$ 12,143	10,000
Allowance for doubtful accounts	-	(1,726)
Sales taxes	<u>271,936</u>	<u>180,337</u>
Total receivables	<u>284,079</u>	<u>188,611</u>
Due from other funds	1,323,592	1,189,229
Investment in Southwest Governments, LLC	<u>118,136</u>	<u>118,136</u>
Total assets	\$ <u><u>1,725,807</u></u>	<u><u>1,495,976</u></u>
<u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	41,182	31,948
Accrued payroll and related liabilities	<u>47,286</u>	<u>52,257</u>
Total liabilities	<u>88,468</u>	<u>84,205</u>
Fund balances:		
Nonspendable - investment in Southwest Government, LLC	118,136	118,136
Unassigned	<u>1,519,203</u>	<u>1,293,635</u>
Total fund balances	<u>1,637,339</u>	<u>1,411,771</u>
Total liabilities and fund balance	\$ <u><u>1,725,807</u></u>	<u><u>1,495,976</u></u>

## CITY OF KING COVE, ALASKA

## General Fund

Schedule of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual  
Year Ended June 30, 2011  
With Comparative Amounts for 2010

	<u>2011</u>		Variance Positive (Negative)	<u>2010</u>
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Revenues:				
Taxes:				
Sales tax	\$ 1,900,000	1,833,699	(66,301)	1,591,136
Business impact tax	100,000	110,000	10,000	107,143
Total taxes	<u>2,000,000</u>	<u>1,943,699</u>	<u>(56,301)</u>	<u>1,698,279</u>
Intergovernmental:				
Federal government - FEMA	-	-	-	80,651
State of Alaska:				
Shared fisheries business tax	465,145	465,145	-	586,975
State PERS relief	-	50,437	50,437	43,609
State revenue sharing	133,313	133,313	-	156,800
State liquor license	2,500	2,500	-	4,000
Extraterritorial fish tax	42,137	42,137	-	47,731
State of Alaska assistance	18,000	-	(18,000)	95,000
Total intergovernmental	<u>661,095</u>	<u>693,532</u>	<u>32,437</u>	<u>1,014,766</u>
Charges for services:				
Public safety revenue	500	509	9	185
Co-op and teen center revenue	33,000	29,854	(3,146)	34,340
Recreational programs	30,000	43,241	13,241	28,967
Total charges for services	<u>63,500</u>	<u>73,604</u>	<u>10,104</u>	<u>63,492</u>
Other revenues - miscellaneous	<u>16,200</u>	<u>11,486</u>	<u>(4,714)</u>	<u>13,476</u>
Total revenues	<u>2,740,795</u>	<u>2,722,321</u>	<u>(18,474)</u>	<u>2,790,013</u>

**CITY OF KING COVE, ALASKA**  
**General Fund**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual, continued**

	<u>2011</u>			<u>2010</u>
	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)	<u>Actual</u>
Expenditures:				
General government:				
City Council:				
Stipends	\$ 3,300	3,000	300	3,350
Employee benefits	52,000	55,420	(3,420)	49,933
Travel and per diem	7,500	-	7,500	7,336
Dues and fees	1,200	1,233	(33)	1,200
Total City Council	<u>64,000</u>	<u>59,653</u>	<u>4,347</u>	<u>61,819</u>
Planning:				
Salaries	37,000	36,620	380	37,134
Stipends	1,300	1,550	(250)	1,400
Employee benefits	12,000	9,914	2,086	9,993
Contract labor	10,000	-	10,000	3,540
Insurance	1,306	1,306	-	1,545
Miscellaneous	-	325	(325)	-
Deferred compensation	800	1,781	(981)	1,219
Total planning	<u>62,406</u>	<u>51,496</u>	<u>10,910</u>	<u>54,831</u>
Administration:				
Salaries	113,000	114,410	(1,410)	112,463
Employee benefits	66,322	57,882	8,440	64,037
Contract labor	7,500	4,050	3,450	7,863
Travel and per diem	14,000	9,774	4,226	13,305
Telephone	7,500	6,346	1,154	8,296
Postage	5,000	6,453	(1,453)	5,486
Supplies	9,500	11,976	(2,476)	12,163
Utilities - diesel	3,000	3,296	(296)	2,845
Utilities - electric	3,700	1,178	2,522	1,318
Dues and fees	4,000	4,672	(672)	3,575
Credit card fees	-	25	(25)	242
Insurance	6,581	6,581	-	6,453
Miscellaneous	500	125	375	570
Deferred compensation	3,000	3,000	-	2,950
Total administration	<u>243,603</u>	<u>229,768</u>	<u>13,835</u>	<u>241,566</u>

## CITY OF KING COVE, ALASKA

## General Fund

Schedule of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual, continued

	2011		Variance	2010
	<u>Budget</u>	<u>Actual</u>	Positive (Negative)	<u>Actual</u>
Expenditures, continued:				
General government, continued:				
Anchorage office:				
Salaries	\$ 133,000	116,399	16,601	174,272
Employee benefits	27,000	22,347	4,653	32,647
Contract labor	85,000	65,020	19,980	78,577
Travel and per diem	27,000	23,587	3,413	30,084
Telephone	3,000	3,971	(971)	4,698
Postage	500	276	224	332
Supplies	7,500	4,269	3,231	7,678
Rent	15,000	13,922	1,078	14,331
Credit card fees	-	100	(100)	204
Dues and fees	2,500	550	1,950	2,935
Insurance	3,920	3,919	1	4,634
Miscellaneous	250	-	250	52
Deferred compensation	3,000	6,897	(3,897)	4,416
Total Anchorage office	<u>307,670</u>	<u>261,257</u>	<u>46,413</u>	<u>354,860</u>
Total general government	<u>677,679</u>	<u>602,174</u>	<u>75,505</u>	<u>713,076</u>
Public safety:				
Salaries	190,000	209,706	(19,706)	267,065
Employee benefits	99,000	112,763	(13,763)	128,713
Stipends	7,000	6,300	700	6,724
Contract labor	90,000	90,000	-	15,100
Travel and per diem	8,500	2,572	5,928	7,324
Telephone	12,500	11,781	719	12,698
Supplies	25,000	25,552	(552)	19,013
Postage	1,500	1,611	(111)	1,650
Utilities - diesel	13,000	12,955	45	9,864
Utilities - electric	6,000	3,570	2,430	3,609
Dues and fees	500	347	153	1,496
Insurance	26,125	26,124	1	30,890
Fuel	15,000	14,273	727	13,691
Miscellaneous	5,000	4,750	250	750
Animal control	8,200	8,162	38	11,759
Deferred compensation	7,000	6,000	1,000	7,902
Capital outlay	-	-	-	175,651
Total public safety	<u>514,325</u>	<u>536,466</u>	<u>(22,141)</u>	<u>713,899</u>

## CITY OF KING COVE, ALASKA

## General Fund

Schedule of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual, continued

	<u>2011</u>			<u>2010</u>
	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)	<u>Actual</u>
Expenditures, continued:				
Public works:				
Salaries	\$ 250,085	203,760	46,325	211,148
Employee benefits	120,970	94,627	26,343	100,969
Travel and per diem	2,000	1,868	132	795
Telephone	3,000	2,784	216	3,155
Supplies	48,000	54,577	(6,577)	44,299
Utilities - electric	21,500	17,628	3,872	16,214
Insurance	27,430	27,430	-	32,434
Fuel - gas	5,000	3,640	1,360	2,278
Fuel - diesel	25,000	24,867	133	20,905
Advertising	-	-	-	1,417
Deferred compensation	3,100	5,045	(1,945)	3,684
Total public works	<u>506,085</u>	<u>436,226</u>	<u>69,859</u>	<u>437,298</u>
Community services - recreational programs:				
Salaries	113,775	110,996	2,779	114,493
Employee benefits	35,000	37,669	(2,669)	37,341
Telephone	4,000	3,849	151	4,573
Supplies	30,000	36,835	(6,835)	55,141
Utilities - diesel	67,000	80,383	(13,383)	72,172
Utilities - electric	23,000	18,221	4,779	23,415
Dues and fees	1,150	1,150	-	475
Insurance	9,143	9,143	-	10,812
Fuel - gas	1,500	1,677	(177)	1,291
Fuel - diesel	-	42	(42)	-
Bank fees	150	55	95	57
Total community services	<u>284,718</u>	<u>300,020</u>	<u>(15,302)</u>	<u>319,770</u>



## CITY OF KING COVE, ALASKA

## General Fund

Schedule of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual, continued

	2011		Variance Positive (Negative)	2010
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Expenditures, continued:				
Other:				
Audit and accounting assistance	40,000	36,517	3,483	45,203
Legal	20,000	23,560	(3,560)	30,372
Engineering	-	3,717	(3,717)	-
Elections	600	600	-	600
Senior citizen power subsidy	47,250	46,181	1,069	43,613
Bank fees	15,000	14,651	349	13,436
Donations	5,000	4,836	164	4,834
Aleutia grant expenditures	-	58,552	(58,552)	-
Miscellaneous	10,000	2,357	7,643	25,734
Total other	<u>137,850</u>	<u>190,971</u>	<u>(53,121)</u>	<u>163,792</u>
Total expenditures	<u>2,120,657</u>	<u>2,065,857</u>	<u>54,800</u>	<u>2,347,835</u>
Excess of revenues over expenditures	620,138	656,464	36,326	442,178
Other financing uses - transfers to:				
Special Revenue Funds:				
Harbor and Port	-	-	-	(125,000)
Vehicle and Machinery Replacement	-	-	-	(25,000)
Permanent Fund	-	-	-	(100,000)
Aleutia Grant	(80,000)	-	80,000	(67,000)
Capital Project Funds:				
General Capital Projects	(400,000)	(400,000)	-	(200,000)
Vehicle and Machinery Replacement	(75,000)	(75,000)	-	-
Infrastructure	-	-	-	(75,008)
Harbor and Port Enterprise Fund	(23,000)	(23,000)	-	-
Total other financing uses	<u>(578,000)</u>	<u>(498,000)</u>	<u>80,000</u>	<u>(592,008)</u>
Net change in fund balance	\$ <u>42,138</u>	158,464	<u>116,326</u>	(149,830)
Beginning fund balance		1,411,771		1,561,601
Change in beginning fund balance - GASB 54		<u>67,104</u>		-
Ending fund balance	\$	<u>1,637,339</u>		<u>1,411,771</u>

**CITY OF KING COVE, ALASKA**  
Harbor and Port Special Revenue Fund  
Schedule of Revenues, Expenditures and Changes in  
Fund Balance - Budget and Actual  
Year Ended June 30, 2011  
With Comparative Amounts for 2010

	<u>2011</u>			<u>2010</u>
			Variance Positive (Negative)	
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Revenues:				
Moorage	\$ -	-	-	193,547
Pot storage	-	-	-	23,888
Haulout	-	-	-	48,044
Wharfage	-	-	-	73,472
Harbor electric	-	-	-	6,938
State ferry	-	-	-	9,000
Space rent	-	-	-	1,438
Lockers	-	-	-	25,479
Skiff storage	-	-	-	1,890
Warehouse loft usage	-	-	-	2,039
Forklift	-	-	-	15,053
Grid	-	-	-	338
Other	-	-	-	5,261
Harbor fuel inbound	-	-	-	5,195
Finance charges	-	-	-	3,294
State PERS relief	-	-	-	6,158
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>421,034</u>
Expenditures:				
Harbor:				
Salaries	-	-	-	138,943
Employee benefits	-	-	-	60,179
Contract labor	-	-	-	41,093
Travel and per diem	-	-	-	4,665
Telephone	-	-	-	3,140
Supplies	-	-	-	25,578
Utilities - heat	-	-	-	4,719
Utilities - electric	-	-	-	17,819
Dues and fees	-	-	-	350
Advertising	-	-	-	234
Insurance	-	-	-	26,256
Fuel - gas	-	-	-	6,857
Fuel - diesel	-	-	-	3,732
Miscellaneous	-	-	-	(840)
Deferred compensation	-	-	-	2,610
Total harbor	<u>-</u>	<u>-</u>	<u>-</u>	<u>335,335</u>

## CITY OF KING COVE, ALASKA

Harbor and Port Special Revenue Fund  
 Schedule of Revenues, Expenditures and Changes in  
 Fund Balance - Budget and Actual, continued

	<u>2011</u>		<u>2010</u>
	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative) <u>Actual</u>
Expenditures, continued:			
Port:			
Salaries	\$ -	-	- 14,893
Employee benefits	-	-	- 5,653
Insurance	-	-	- 6,178
Miscellaneous	-	-	- 30
Total port	-	-	- 26,754
Total expenditures	-	-	- 362,089
Excess of revenues over expenditures	-	-	- 58,945
Other financing sources (uses):			
Transfers from General Fund	-	-	- 125,000
Transfers to:			
Solid Waste Collection			
Special Revenue Fund	-	-	- (10,000)
Harbor and Port			
Enterprise Fund	-	(201,391)	(201,391) -
Net other financing sources (uses)	-	(201,391)	(201,391) 115,000
Net change in fund balance	\$ -	(201,391)	(201,391) 173,945
Beginning fund balance		201,391	27,446
Ending fund balance	\$ -	-	201,391

**CITY OF KING COVE, ALASKA**  
Solid Waste Collection Special Revenue Fund  
Schedule of Revenues, Expenditures and Changes in  
Fund Balance - Budget and Actual  
Year Ended June 30, 2011  
With Comparative Amounts for 2010

	<u>2011</u>		<u>2010</u>
	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative) <u>Actual</u>
Revenues:			
Collection fees	\$ 110,000	104,360	(5,640) 106,852
State PERS relief	-	4,592	4,592 3,172
Finance charges	-	96	96 122
Total revenues	<u>110,000</u>	<u>109,048</u>	<u>(952)</u> <u>110,146</u>
Expenditures:			
Salaries	63,000	57,030	5,970 57,907
Employee benefits	29,000	31,149	(2,149) 30,167
Engineering	3,000	2,441	559 5,161
Travel and per diem	2,500	-	2,500 3,668
Supplies	6,000	5,962	38 1,337
Dues and fees	150	150	- -
Insurance	7,837	7,837	- 9,267
Fuel - diesel	3,000	3,201	(201) 2,486
Deferred compensation	600	530	70 687
Total expenditures	<u>115,087</u>	<u>108,300</u>	<u>6,787</u> <u>110,680</u>
Excess of revenues over (under) expenditures	(5,087)	748	5,835 (534)
Other financing sources - transfers from:			
Harbor and Port Special Revenue Fund	-	-	- 10,000
Harbor and Port Enterprise Fund	<u>10,000</u>	<u>10,000</u>	<u>-</u> <u>-</u>
Total other financing sources	<u>10,000</u>	<u>10,000</u>	<u>-</u> <u>10,000</u>
Net change in fund balance	\$ <u>4,913</u>	10,748	<u>5,835</u> 9,466
Beginning fund balance		<u>60,784</u>	<u>51,318</u>
Ending fund balance	\$ <u>71,532</u>	<u>60,784</u>	<u>60,784</u>

**CITY OF KING COVE, ALASKA**  
Housing and Community Projects Special Revenue Fund  
Schedule of Revenues, Expenditures and Changes in  
Deficit - Budget and Actual  
Year Ended June 30, 2011  
With Comparative Amounts for 2010

	<u>2011</u>			<u>2010</u>
	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)	<u>Actual</u>
Revenues:				
Housing rental	\$ 25,000	27,100	2,100	25,875
Gravel sales	2,100	2,853	753	884
Space rental	2,500	2,364	(136)	11,136
Equipment rental	50,000	56,018	6,018	59,322
Other	1,900	2,242	342	7,873
Total revenues	<u>81,500</u>	<u>90,577</u>	<u>9,077</u>	<u>105,090</u>
Expenditures - community services:				
Salaries	18,000	22,703	(4,703)	7,035
Employee benefits	8,500	10,886	(2,386)	3,320
Contract labor	250	250	-	650
Telephone	200	101	99	561
Supplies	42,000	55,623	(13,623)	33,831
Utilities - heat	8,000	9,652	(1,652)	6,855
Utilities - electric	8,000	8,260	(260)	10,383
Insurance	1,310	1,306	4	1,545
Miscellaneous	-	-	-	658
Deferred compensation	350	541	(191)	101
Total expenditures	<u>86,610</u>	<u>109,322</u>	<u>(22,712)</u>	<u>64,939</u>
Excess of revenues over (under) expenditures	(5,110)	(18,745)	(13,635)	40,151
Other financing uses - transfers to:				
Vehicle and Machinery Replacement Special Revenue Fund	-	-	-	(50,000)
Vehicle and Machinery Replacement Capital Project Fund	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>	<u>-</u>
Total other financing sources	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>	<u>(50,000)</u>
Net change in deficit	\$ <u>(30,110)</u>	<u>(43,745)</u>	<u>(13,635)</u>	<u>(9,849)</u>
Beginning deficit		<u>(49,115)</u>		<u>(39,266)</u>
Ending deficit	\$	<u>(92,860)</u>		<u>(49,115)</u>

**CITY OF KING COVE, ALASKA**  
**Vehicle and Machinery Replacement Special Revenue Fund**  
**Statement of Revenues, Expenditures and Changes in**  
**Fund Balance - Budget and Actual**  
**Year Ended June 30, 2011**  
**With Comparative Amounts for 2010**

	<u>2011</u>	<u>2010</u>
Expenditures - equipment	\$ <u>-</u>	<u>34,837</u>
Excess of revenues over (under) expenditures	-	(34,837)
Other financing sources - transfers from:		
Housing and Community Projects		
Special Revenue Fund	-	50,000
General Fund	<u>-</u>	<u>25,000</u>
Total other financing sources	<u>-</u>	<u>75,000</u>
Net change in fund balance	-	40,163
Beginning fund balance	51,463	11,300
Change in beginning fund balance - GASB 54	<u>(51,463)</u>	<u>-</u>
Ending fund balance	\$ <u><u>-</u></u>	<u><u>51,463</u></u>

**CITY OF KING COVE, ALASKA**  
Aluetia Grant Special Revenue Fund  
Statement of Revenues, Expenditures and Changes in  
Fund Balance - Budget and Actual  
Year Ended June 30, 2011

	<u>2011</u>	<u>2010</u>
Other financing sources - transfers from General Fund	\$ <u>-</u>	<u>67,000</u>
Net change in fund balance	-	67,000
Beginning fund balance	67,104	104
Change in beginning fund balance - GASB 54	<u>(67,104)</u>	<u>-</u>
Ending fund balance	\$ <u><u>-</u></u>	<u><u>67,104</u></u>

**CITY OF KING COVE, ALASKA**  
**Izembek Land Exchange Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in**  
**Fund Balance - Budget and Actual**  
**Year Ended June 30, 2011**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues - intergovernmental	\$ <u>300,000</u>	<u>294,769</u>	<u>(5,231)</u>
Expenditures - community services:			
Salaries	50,000	48,986	1,014
Employee benefits	11,000	10,391	609
Contract labor	198,000	195,598	2,402
Engineering	24,000	23,544	456
Travel and per diem	<u>17,000</u>	<u>16,250</u>	<u>750</u>
Total expenditures	<u>300,000</u>	<u>294,769</u>	<u>5,231</u>
Net change in fund balance	\$ <u>-</u>	<u>-</u>	<u>-</u>
Beginning fund balance		<u>-</u>	
Ending fund balance	\$ <u>-</u>	<u>-</u>	



**CITY OF KING COVE, ALASKA**  
 General Capital Projects Fund  
 Statement of Revenues, Expenditures and Changes  
 in Fund Balance  
 Year Ended June 30, 2011  
 With Comparative Amounts for 2010

	<u>2011</u>	<u>2010</u>
Revenues:		
Intergovernmental	\$ 2,230,600	4,294,146
Other	<u>35,000</u>	<u>100,000</u>
Total revenues	<u>2,265,600</u>	<u>4,394,146</u>
Expenditures:		
Street construction	2,428,720	3,928,248
Planning and engineering	-	1,264
Harbor projects	14,315	18,949
Landfill upgrade	1,568	82,352
City street project	358,360	314,531
Access project	7,667	143,219
Old boat harbor rehab	-	3,116
Other	<u>3,727</u>	<u>80,822</u>
Total expenditures	<u>2,814,357</u>	<u>4,572,501</u>
Excess of revenues over (under) expenditures	(548,757)	(178,355)
Other financing sources - transfers from General Fund	<u>400,000</u>	<u>200,000</u>
Net change in fund balance	(148,757)	21,645
Beginning fund balance	<u>402,134</u>	<u>380,489</u>
Ending fund balance	\$ <u>253,377</u>	<u>402,134</u>

**CITY OF KING COVE, ALASKA**  
**Water Pipe Capital Project Fund**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance (Deficit)**  
**Year Ended June 30, 2011**  
**With Comparative Amounts for 2010**

	<u>2011</u>	<u>2010</u>
Revenues	\$ <u>-</u>	<u>-</u>
Expenditures:		
Contract labor	-	12,250
Supplies	<u>-</u>	<u>7,425</u>
Total expenditures	<u>-</u>	<u>19,675</u>
Net change in fund balance	-	(19,675)
Beginning fund balance (deficit)	<u>(19,675)</u>	<u>-</u>
Ending deficit	\$ <u><u>(19,675)</u></u>	<u><u>(19,675)</u></u>

**CITY OF KING COVE, ALASKA**  
North Old Boat Harbor Capital Project Fund  
Statement of Revenues, Expenditures and Changes  
in Fund Balance (Deficit)  
Year Ended June 30, 2011  
With Comparative Amounts for 2010

	<u>2011</u>	<u>2010</u>
Revenues - intergovernmental	\$ -	<u>1,868,807</u>
Expenditures:		
Engineering	-	103,931
Capital construction and supplies	-	2,666,421
Bond issuance costs	<u>-</u>	<u>3,214</u>
Total expenditures	<u>-</u>	<u>2,773,566</u>
Excess of revenues over (under) expenditures	-	(904,759)
Other financing sources:		
Proceeds from revenue bond issuance	-	500,000
Premium on bond issuance	-	3,373
Transfers from Harbor and Port Enterprise Fund	<u>401,386</u>	<u>-</u>
Total other financing sources	<u>401,386</u>	<u>503,373</u>
Net change in fund balance	401,386	(401,386)
Beginning fund balance (deficit)	<u>(401,386)</u>	<u>-</u>
Ending fund balance (deficit)	\$ <u>-</u>	<u>(401,386)</u>

**CITY OF KING COVE, ALASKA**  
**Vehicle and Machinery Replacement Capital Project Fund**  
**Statement of Revenues, Expenditures and Changes in**  
**Fund Balance - Budget and Actual**  
**Year Ended June 30, 2011**

Expenditures - equipment	\$ <u>20,173</u>
Excess of revenues over (under) expenditures	(20,173)
Other financing sources - transfers from:	
Housing and Community Projects	
Special Revenue Fund	25,000
General Fund	<u>75,000</u>
Total other financing sources	<u>100,000</u>
Net change in fund balance	79,827
Beginning fund balance	-
Change in beginning fund balance - GASB 54	<u>51,463</u>
Ending fund balance	\$ <u><u>131,290</u></u>

**CITY OF KING COVE, ALASKA**  
**Electric Enterprise Fund**  
**Statement of Net Assets**  
**June 30, 2011**  
**With Comparative Amounts for 2010**

	<u>Assets</u>	<u>2011</u>	<u>2010</u>
Current assets:			
Receivables:			
Accounts		\$ 91,518	62,145
Allowance for doubtful accounts		(14,000)	(15,759)
Total current assets		<u>77,518</u>	<u>46,386</u>
Property, plant and equipment:			
Land		48,372	48,372
Infrastructure		3,955,382	3,955,382
Improvements		723,045	692,995
Buildings		2,203,494	2,203,494
Equipment		<u>4,901,717</u>	<u>4,901,717</u>
Total property, plant and equipment		11,832,010	11,801,960
Less accumulated depreciation		<u>(4,621,233)</u>	<u>(4,267,254)</u>
Net property, plant and equipment		<u>7,210,777</u>	<u>7,534,706</u>
Total assets		\$ <u>7,288,295</u>	<u>7,581,092</u>
<u>Liabilities and Net Assets</u>			
Liabilities:			
Current liabilities:			
Accounts payable		20,299	8,137
Accrued payroll and related liabilities		8,550	8,741
Accrued interest payable		34,924	5,070
Deferred revenue		1,813	948
Due to other funds		576,279	779,775
Current portion of revenue bonds		<u>133,726</u>	<u>85,624</u>
Total current liabilities		775,591	888,295
Long-term debt, net of current portion:			
Accrued leave		5,166	5,525
Revenue bonds		<u>930,394</u>	<u>1,020,724</u>
Total liabilities		<u>1,711,151</u>	<u>1,914,544</u>
Net assets:			
Invested in capital assets, net of related debt		6,146,657	6,428,358
Deficit		<u>(569,513)</u>	<u>(761,810)</u>
Total net assets		<u>5,577,144</u>	<u>5,666,548</u>
Total liabilities and net assets		\$ <u>7,288,295</u>	<u>7,581,092</u>

**CITY OF KING COVE, ALASKA**  
**Electric Enterprise Fund**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Year Ended June 30, 2011**  
**With Comparative Amounts for 2010**

	<u>2011</u>	<u>2010</u>
Operating revenues - charges for services:		
Electric revenue	\$ 717,020	666,636
City owned electric	349,227	335,007
Harbor electric	165,282	123,539
Finance charges	408	1,194
Other	81,335	30,000
Total operating revenues	<u>1,313,272</u>	<u>1,156,376</u>
Operating expenses:		
Salaries	148,420	154,918
Employee benefits	72,630	76,722
Travel and training	3,859	-
Telephone	8,752	9,940
Supplies	75,969	42,638
Dues and fees	156	179
Insurance	16,980	20,078
Fuel - power plant	617,211	708,232
Fuel - vehicles	8,855	10,583
Depreciation	353,979	363,365
Miscellaneous	-	1,800
Total operating expenses	<u>1,306,811</u>	<u>1,388,455</u>
Income (loss) from operations	6,461	(232,079)
Nonoperating revenues (expenses):		
Interest expense	(60,284)	(63,835)
Senior power subsidy	(46,181)	(43,613)
State PERS relief	10,600	7,020
Net nonoperating revenues (expenses)	<u>(95,865)</u>	<u>(100,428)</u>
Change in net assets	(89,404)	(332,507)
Beginning net assets	<u>5,666,548</u>	<u>5,999,055</u>
Ending net assets	\$ <u>5,577,144</u>	<u>5,666,548</u>

**CITY OF KING COVE, ALASKA**  
Electric Enterprise Fund  
Statement of Cash Flows  
Year Ended June 30, 2011  
With Comparative Amounts for 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 1,283,005	1,177,644
Payments to suppliers	(719,620)	(803,644)
Payments to employees	(211,000)	(220,303)
Net cash flows from operating activities	<u>352,385</u>	<u>153,697</u>
Cash flows from noncapital financing activities:		
Senior power subsidy	(46,181)	(43,613)
Increase (decrease) in due to other funds	(203,496)	63,511
Net cash flows from noncapital financing activities	<u>(249,677)</u>	<u>19,898</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(30,050)	(28,286)
Principal payments on long-term debt	(42,228)	(81,102)
Interest payments on long-term debt	(30,430)	(64,207)
Net cash flows from capital and related financing activities	<u>(102,708)</u>	<u>(173,595)</u>
Net increase in cash and investments	-	-
Beginning cash and investments	-	-
Ending cash and investments	\$ -	-
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Income (loss) from operations	6,461	(232,079)
Adjustments to reconcile income (loss) from operations to net cash flows from operating activities:		
Depreciation	353,979	363,365
Noncash expense - PERS relief	10,600	7,020
(Increase) decrease in assets:		
Accounts receivable (net)	(31,132)	21,018
Increase (decrease) in liabilities:		
Accounts payable	12,162	(10,194)
Accrued payroll and related liabilities	(191)	2,202
Deferred revenue	865	250
Accrued leave	(359)	2,115
Net cash flows from operating activities	<u>\$ 352,385</u>	<u>153,697</u>

**CITY OF KING COVE, ALASKA**  
City Fuel Enterprise Fund  
Statement of Net Assets  
June 30, 2011  
With Comparative Amounts for 2010

	<u>2011</u>	<u>2010</u>
<u>Assets</u>		
Current assets:		
Cash	\$ -	16,039
Accounts receivable	37,000	-
Fuel inventory	605,173	276,817
Total current assets	<u>642,173</u>	<u>292,856</u>
Property, plant and equipment - fuel tanks	871,489	871,489
Less accumulated depreciation	<u>(130,722)</u>	<u>(87,148)</u>
Net property, plant and equipment	<u>740,767</u>	<u>784,341</u>
Total assets	\$ <u><u>1,382,940</u></u>	<u><u>1,077,197</u></u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	258,796	358,857
Accrued payroll and related liabilities	1,216	839
Due to other funds	281,588	-
Total current liabilities	<u>541,600</u>	<u>359,696</u>
Net assets:		
Invested in capital assets	740,767	784,341
Unrestricted (deficit)	<u>100,573</u>	<u>(66,840)</u>
Total net assets	<u>841,340</u>	<u>717,501</u>
Total liabilities and net assets	\$ <u><u>1,382,940</u></u>	<u><u>1,077,197</u></u>



**CITY OF KING COVE, ALASKA**  
City Fuel Enterprise Fund  
Statement of Revenues, Expenses and Changes in Net Assets  
Year Ended June 30, 2011  
With Comparative Amounts for 2010

	<u>2011</u>	<u>2010</u>
Operating revenues - fuel sales	\$ <u>496,874</u>	<u>504,153</u>
Operating expenses:		
Salaries and benefits	27,798	30,481
Supplies	1,037	1,679
Fuel	300,626	268,532
Depreciation	<u>43,574</u>	<u>43,574</u>
Total operating expenses	<u>373,035</u>	<u>344,266</u>
Change in net assets	123,839	159,887
Beginning net assets	<u>717,501</u>	<u>557,614</u>
Ending net assets	\$ <u><u>841,340</u></u>	<u><u>717,501</u></u>

**CITY OF KING COVE, ALASKA**  
City Fuel Enterprise Fund  
Statement of Cash Flows  
Year Ended June 30, 2011  
With Comparative Amounts for 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Receipts from customers	\$ 459,874	1,212,386
Payments to suppliers	(730,080)	(720,211)
Payments to employees	<u>(27,421)</u>	<u>(30,500)</u>
Net cash flows from operating activities	<u>(297,627)</u>	<u>461,675</u>
Cash flows from noncapital financing activities -		
Increase (decrease) in due to other funds	<u>281,588</u>	<u>(445,636)</u>
Net increase (decrease) in cash and investments	(16,039)	16,039
Beginning cash and investments	<u>16,039</u>	<u>-</u>
Ending cash and investments	\$ <u>-</u>	<u>16,039</u>
Reconciliation of income from operations to net cash provided (used) by operating activities:		
Income from operations	123,839	159,887
Adjustments to reconcile income from operations to net cash flows from operating activities:		
Depreciation	43,574	43,574
(Increase) decrease in assets:		
Accounts receivable	(37,000)	-
Fuel inventory	(328,356)	(100,553)
Increase (decrease) in liabilities:		
Accounts payable	(100,061)	358,786
Accrued payroll and related liabilities	<u>377</u>	<u>(19)</u>
Net cash flows from operating activities	\$ <u>(297,627)</u>	<u>461,675</u>

## CITY OF KING COVE, ALASKA

## Harbor and Port Enterprise Fund

## Statement of Net Assets

June 30, 2011

Assets

## Current assets:

## Receivables:

Accounts	\$ 128,683
Grants	329,856
Allowance for doubtful accounts	(35,438)
Total current assets	<u>423,101</u>

Restricted cash - bond reserves	108,404
Bond insurance cost	3,828

## Property, plant and equipment:

Infrastructure	21,720,359
Buildings	355,860
Equipment	<u>907,482</u>
Total property, plant and equipment	22,983,701
Less accumulated depreciation	<u>(5,211,505)</u>
Net property, plant and equipment	<u>17,772,196</u>
Total assets	\$ <u><u>18,307,529</u></u>

Liabilities and Net Assets

## Current liabilities:

Accounts payable	9,723
Accrued payroll and related liabilities	11,650
Accrued interest payable	15,487
Due to other funds	551,661
Current portion of revenue bonds	<u>45,000</u>
Total current liabilities	633,521

## Long-term debt, net of current portion:

Accrued leave	19,150
Revenue bonds	1,200,000
Unamortized bond premium	<u>22,698</u>
Total liabilities	<u>1,875,369</u>

## Net assets:

Invested in capital assets, net of related debt	16,504,498
Deficit	<u>(72,338)</u>
Total net assets	<u>16,432,160</u>

Total liabilities and net assets	\$ <u><u>18,307,529</u></u>
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## CITY OF KING COVE, ALASKA

## Harbor and Port Enterprise Fund

## Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2011

## Operating revenues:

Moorage	\$ 193,316
Pot storage	33,039
Haulout	56,416
Wharfage	36,957
Harbor electric	5,112
State ferry	11,000
Space rent	7,600
Lockers	24,948
Skiff storage	3,361
Warehouse loft usage	999
Forklift	21,251
Other	17,900
Harbor fuel inbound	10,812
Finance charges	2,585
Total revenues	<u>425,296</u>

## Operating costs:

## Harbor:

Salaries	184,811
Employee benefits	100,396
Travel and per diem	5,047
Telephone	2,875
Supplies	21,077
Utilities - heat	6,716
Utilities - electric	19,983
Dues and fees	1,275
Insurance	22,205
Fuel - gas	5,481
Fuel - diesel	4,488
Deferred compensation	4,320
Depreciation	438,850
Total harbor	<u>817,524</u>

**CITY OF KING COVE, ALASKA**  
 Harbor and Port Enterprise Fund  
 Statement of Revenues, Expenses and Changes in  
 Net Assets, continued

## Expenditures, continued:

## Port:

Salaries	\$ 16,697
Employee benefits	7,803
Insurance	5,225
Miscellaneous	480
Total port	<u>30,205</u>

Total operating costs	<u>847,729</u>
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Loss from operations	(422,433)
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## Nonoperating revenues (expenses):

Interest expense	(49,383)
Sales tax	10,532
State PERS relief	14,801
Net nonoperating revenues (expenses)	<u>(24,050)</u>

Loss before contributions and transfers	(446,483)
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Capital contributions	2,586,919
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## Transfers from (to) other funds:

General Fund	23,000
Harbor and Port Special Revenue Fund	201,391
North Old Harbor Capital Projects Fund	(401,386)
Solid Waste Special Revenue Fund	<u>(10,000)</u>

Change in net assets	1,953,441
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Beginning net assets	<u>14,478,719</u>
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Ending net assets	<u>\$ 16,432,160</u>
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## CITY OF KING COVE, ALASKA

## Harbor and Port Enterprise Fund

## Statement of Cash Flows

Year Ended June 30, 2011

## Cash flows from operating activities:

Receipts from customers	\$ 342,583
Payments to suppliers	(89,449)
Payments to employees	(276,998)
Net cash flows from operating activities	<u>(23,864)</u>

## Cash flows from noncapital financing activities:

Increase in due to other funds	551,661
Transfers to other funds	(411,386)
Net cash flows from noncapital financing activities	<u>140,275</u>

## Cash flows from capital and related financing activities:

Purchase of capital assets	(3,219,435)
Proceeds from issuance of revenue bonds	763,870
Interest payments on long-term debt	(33,896)
Capital contributions received	2,257,063
Transfers from other funds	224,391
Net cash flows from capital and related financing activities	<u>(8,007)</u>

Net increase in cash and investments 108,404

Beginning cash and investments

-

Ending cash and investments

\$ 108,404Reconciliation of loss from operations to net cash  
provided (used) by operating activities:

Loss from operations (422,433)

Adjustments to reconcile loss from operations to net  
cash flows from operating activities:

Depreciation	438,850
Noncash expense - PERS relief	14,801
Sales tax revenue	10,532
(Increase) decrease in assets - accounts receivable (net)	(93,245)
Increase (decrease) in liabilities:	
Accounts payable	9,723
Accrued payroll and related liabilities	11,650
Accrued leave	6,258
Net cash flows from operating activities	\$ <u><u>(23,864)</u></u>

**CITY OF KING COVE, ALASKA**  
Harbor and Port Enterprise Fund  
Schedule of Harbor and Port Capital Projects  
Year Ended June 30, 2011

	General Capital Projects	North Harbor Rehabilitation	North Old Boat Harbor	Totals
Funding sources:				
Intergovernmental	\$ -	14,756	2,557,848	2,572,604
City of King Cove	<u>14,315</u>	<u>-</u>	<u>693,015</u>	<u>707,330</u>
Total funding sources	<u>14,315</u>	<u>14,756</u>	<u>3,250,863</u>	<u>3,279,934</u>
Expenditures:				
Salaries and employee benefits	12,035	-	-	12,035
Engineering	69	14,756	-	14,825
Construction	291	-	3,250,863	3,251,154
Fuel	<u>1,920</u>	<u>-</u>	<u>-</u>	<u>1,920</u>
Total expenditures	\$ <u>14,315</u>	<u>14,756</u>	<u>3,250,863</u>	<u>3,279,934</u>

**CITY OF KING COVE, ALASKA**  
 Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2011

<u>Name of Grant</u>	<u>Grant Number</u>	<u>CFDA Number</u>	<u>Grant Award</u>	<u>Federal Share of Expenditures</u>
<b>Department of Transportation</b>				
City of King Cove Street Construction Project	DTFH70-08-E-00015	20.205	\$ 6,500,639	169,732
City of King Cove Street Construction Project - ARRA	DTFH70-08-E-00015	20.205	2,059,300	<u>2,059,300</u>
Total Department of Transportation			\$	<u><u>2,229,032</u></u>

**Note 1: Basis of Presentation**

The Schedule of Expenditures of Federal Awards includes the Federal grant activity of the City of King Cove, Alaska and is presented on the modified accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.



**CITY OF KING COVE, ALASKA**  
Schedule of State Financial Assistance  
Year Ended June 30, 2011

<u>State Grant Title</u>	<u>Grant Number</u>	<u>Total Grant Award</u>	<u>State Share of Expenditures</u>
<b>Department of Commerce, Community and Economic Development</b>			
* Community Revenue Sharing	FY11	\$ 156,800	133,313
Harbor Upgrade Phase I	07-DC-233	400,000	14,756
* Department of Commerce, Community and Economic Development	11-DC-258	0.100	<u>294,769</u>
Total Department of Commerce, Community and Economic Development			<u>442,838</u>
<b>Department of Environmental Conservation</b>			
Landfill Upgrade	48705	162,600	<u>1,568</u>
<b>Department of Transportation and Public Facilities</b>			
* King Cove North Small Boat Harbor	09-HG-009	2,926,655	<u>2,557,848</u>
<b>Department of Administration</b>			
* PERS on Behalf	FY11	80,430	<u>80,430</u>
<b>Department of Revenue</b>			
* Fisheries Business Tax	FY11	586,975	465,145
Fisheries Resource Landing Tax	FY11	47,731	42,137
Alcohol Beverage Sharing	FY11	4,000	<u>2,500</u>
Total Department of Revenue			<u>509,782</u>
Total State Financial Assistance		\$	<u><u>3,592,466</u></u>

\* Denotes a State major program

**Note 1: Basis of Presentation**

The Schedule of State Financial Assistance includes the State grant activity of the City of King Cove, Alaska and is presented on the modified accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.

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## **SINGLE AUDIT SECTION**

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Honorable Mayor and City Council  
City of King Cove, Alaska

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of King Cove as of and for the year ended June 30, 2011, which collectively comprise City of King Cove's basic financial statements and have issued our report thereon dated December 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of City of King Cove is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of King Cove's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of King Cove's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of King Cove's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item to be a material weakness 11-01.

Honorable Mayor and City Council  
City of King Cove, Alaska

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of King Cove's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of King Cove's responses to the findings identified in our audit are described in the schedule of findings and questioned costs. We did not audit City of King Cove's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of City of King Cove's management, Honorable Mayor and City Council, others within the entity, federal and state awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Mikunda, Cottrell & Co.*

Anchorage, Alaska  
December 28, 2011

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Honorable Mayor and City Council  
City of King Cove, Alaska

Compliance

We have audited the compliance of City of King Cove with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. City of King Cove's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of King Cove's management. Our responsibility is to express an opinion on City of King Cove's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of King Cove's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of King Cove's compliance with those requirements.

In our opinion, City of King Cove complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 11-02.

Honorable Mayor and City Council  
City of King Cove, Alaska

### Internal Control Over Compliance

Management of City of King Cove is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of King Cove's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of King Cove's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 11-02. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

City of King Cove's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit City of King Cove's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of City of King Cove's management, Honorable Mayor and City Council, others within the entity, federal and state awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Mikunda, Cottrell & Co.*

Anchorage, Alaska  
December 28, 2011

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

Honorable Mayor and City Council  
City of King Cove, Alaska

Compliance

We have audited the compliance of City of King Cove with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of its major state programs for the year ended June 30, 2011. City of King Cove's major state programs are identified in the accompanying Schedule of State Financial Assistance. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state programs is the responsibility of City of King Cove's management. Our responsibility is to express an opinion on City of King Cove's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about City of King Cove's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of King Cove's compliance with those requirements.

In our opinion, City of King Cove complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2011.



Honorable Mayor and City Council  
City of King Cove, Alaska

### Internal Control Over Compliance

Management of City of King Cove is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state programs. In planning and performing our audit, we considered City of King Cove's internal control over compliance with the requirements that could have a direct and material effect on a major state program to determine the auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of King Cove's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of City of King Cove's management, Honorable Mayor and City Council, others within the entity, and the State of Alaska, and is not intended to be and should not be used by anyone other than these specified parties.

*Mikunda, Cottrell & Co.*

Anchorage, Alaska  
December 28, 2011

# CITY OF KING COVE, ALASKA

## Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

### I. Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☒ yes ☐ no
- Significant deficiency(ies) identified? ☐ yes ☒ none reported
- Noncompliance material to financial statements noted? ☐ yes ☒ no

#### Federal Financial Assistance

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified? ☒ yes ☐ none reported

Type of auditor's report issued on compliance for major programs?

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

☒ yes ☐ no

Identification of major programs:

<u>Agency</u>	<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Department of Transportation	20.205	City of King Cove Street Construction Project - ARRA

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

☐ yes ☒ no

#### State Financial Assistance

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified? ☐ yes ☒ none reported

## CITY OF KING COVE, ALASKA

### Schedule of Findings and Questioned Costs, continued

#### **Summary of Auditor's Results, continued**

##### **State Financial Assistance, continued**

Type of auditor's report issued on compliance  
for major programs?

Unqualified

Dollar threshold used to distinguish a state  
major program?

\$75,000

#### **Financial Statements Findings**

##### **Finding 11-01: Internal Control Over Journal Entries – Material Weakness in Internal Control Over Financial Reporting**

Criteria: Journal entries are a high risk area for fraud and/or error. Inadequate controls over access to post journal entries to the general ledger allow greater risk of inappropriate entries that could materially misstate the financial statements.

Condition: During the course of our audit, we noted the following internal control deficiencies in the City's journal entry process:

1. There is no segregation of duties between the preparation of journal entries and the posting of journal entries.
2. Journal entries and their supporting documentation are not filed in a central filing location.

Context: The City's accounting staff posts two types of journal entries to the general ledger: standard journal entries and adjusting journal entries. Standard journal entries are recurring in nature and adjusting journal entries are non-routine in nature.

Effect: Journal entries are a high risk area for fraud and/or error. Unrestricted access and lack of a formal approval process allows greater risk for the posting of inappropriate entries that could materially misstate the financial statements. Additionally, filing journal entries and their supporting documentation in one central location will help facilitate management's review and approval of all journal entries.

Cause: The City has not implemented restricted access, a formal approval process, or segregation of duties over the preparation and posting of journal entries.

Recommendation: We recommend that the City do the following:

Issue #1 – Implement segregation of duties over the journal entry process, either through an automated software control or through a manual process. Journal entries should be prepared by one individual and approved and posted by another individual.

## CITY OF KING COVE, ALASKA

### Schedule of Findings and Questioned Costs, continued

#### **Financial Statements Findings, continued**

##### **Finding 11-01: Internal Control Over Journal Entries – Material Weakness in Internal Control Over Financial Reporting, continued**

Issue #2 – Maintain a file of all approved and posted journal entries and their supporting documentation in one central filing location. Maintain a log of all approved journal entries and reconcile this log to the journal entries posted in the general ledger.

Views of responsible officials and planned corrective actions:  
See the corrective action plan.

#### **Federal Award Findings**

##### **Finding 11-02 Late Grant Reporting – Compliance and Significant Deficiency in Internal Control Over Compliance - Reporting**

Agency: Department of Transportation  
Program: City of King Cove Street Construction CFDA: 20.205  
Award No.: DTFH70-08-E-00015 Award Year: FY 2008

Criteria: Pursuant to Section 1512(c) of the American Recovery and Reinvestment Act, recipients of Recovery Act funding subject to this section shall provide a report on quarterly basis no later than 10 days following the end of each calendar quarter. The recipient shall submit the required reports online at [FederalReporting.gov](http://FederalReporting.gov).

Condition: During FY 2011, The City did not submit all of its required Section 1512 ARRA reports within the reporting deadline.

Questioned Costs: None noted.

Context: During the fourth quarter of calendar year 2010, The City failed to submit the required Section 1512 ARRA report for the City of King Cove Street Construction Project.

Cause: An effective system for ensuring timely submittal or required reports was not in place.

Effect: The City did not meet its obligations in regard to timely submittal of Section 1512 ARRA reports.

Recommendation: We recommend that The City implement a system to ensure that required reports are submitted in a timely manner.

Views of responsible officials and planned corrective actions:  
See the corrective action plan.

**CITY OF KING COVE, ALASKA**

**Schedule of Findings and Questioned Costs, continued**

**State Award Findings**

No findings reported.

## **CITY OF KING COVE, ALASKA**

### **Summary Schedule of Prior Audit Findings**

**Year Ended June 30, 2011**

#### **Financial Statements Findings**

##### **Finding 10-01      General Ledger Reconciliation – Material Weakness**

Condition:                      The City did not perform timely reconciliations of various general ledger accounts.

Status:                          This finding was resolved during FY11.

##### **Finding 10-02      Journal Entries – Material Weakness**

Condition:                      There was no segregation of duties between the preparation of journal entries and the posting of journal entries. Journal entries and their supporting documentation were not filed in a central filing location.

Status:                          This finding was repeated in FY11.

##### **Finding 10-03      Grant Reconciliation and Grant File Maintenance – Material Weakness**

Condition:                      Several corrections were needed to properly prepare the Schedule of Expenditures of Federal Awards and the Schedule of State Financial Assistance.

Status:                          This finding was resolved during FY11.

##### **Finding 10-04      Late Submission of the Reporting Package to the Federal Audit Clearinghouse – Significant Deficiency**

Condition:                      Sufficient controls were not maintained to enable the City to submit the FY10 reporting package in a timely manner to the Federal Audit Clearinghouse.

Status:                          This finding was resolved during FY11.

#### **Federal Award Findings and Questioned Costs**

##### **Finding 10-05      Internal Controls Over the Preparation of the Schedule of Expenditures of Federal Awards and Schedule of State Financial Assistance – Material Weakness (Direct programs 20.205 and 90.100)**

Condition:                      The City's Schedule of Expenditures of Federal Awards and State Financial Assistance were incomplete at the outset of the audit.

Status:                          This finding was resolved during FY11.

## **CITY OF KING COVE, ALASKA**

### **Summary Schedule of Prior Audit Findings, continued**

#### **State Award Findings and Questioned Costs**

##### **Finding 10-05      Internal Controls Over the Preparation of the Schedule of State Financial Assistance – Material Weakness**

Condition:                      See Finding 10-05 above.

Status:                          This finding was resolved during FY11.



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#### **Financial Statement Findings**

##### **Finding 11-01 Internal Control Over Journal Entries – Material Weakness in Internal Control Over Financial Reporting**

Planned corrective actions: Journal Entries

The King Cove and Anchorage offices have the journal entries faxed to the Administrative Manager on a monthly basis. She will review these entries and approve them with signature and keep the signed copy on file after faxing the approval to King Cove. This procedure has taken place effective July 1, 2011 – however, due to untimely monthly reconciliations this procedure did not begin until October 3, 2011, when the July and August close outs took place. We expect to have full recording of the journal entries approval available for FY12 auditing.

##### **Finding 11-02 Late Grant Reporting – Compliance and Significant Deficiency in Internal Control Over Compliance - Reporting**

Planned corrective actions: Late Grant Reporting

The City has now reported on time and will calendar electronically to confirm timely completion in the future.